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The Manufacturers Hanover
Financial Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, NOVEMBER 5, 1984

VOLUME XXI, NUMBER 39

Capital Goods Imports . . .

In September, another massive surge of imports added $12.7 billion to the nation's merchandise trade deficit. The red ink on our foreign trade accounts is expected to reach a record $130 billion (f.a.s. exports/c.i.f. imports basis) this year—almost double the previous record of $69 billion set just last year. The powerful dollar, widely viewed as primarily responsible for the U.S. merchandise trade deficit, shows signs of sustaining its present strength in spite of slowing U.S. economic growth.

Yet there are several ways in which the strong dollar affects U.S. economic performance—and not all of them are bad. Consumers, for example, benefit from the restraint which a robust currency places on domestic prices of both imports and on those U.S.-produced goods and services which compete with imports. To U.S. producers and exporters, however, the same monetary phenomenon reduces their ability to compete overseas and puts downward pressure on prices and profit margins in the domestic market.

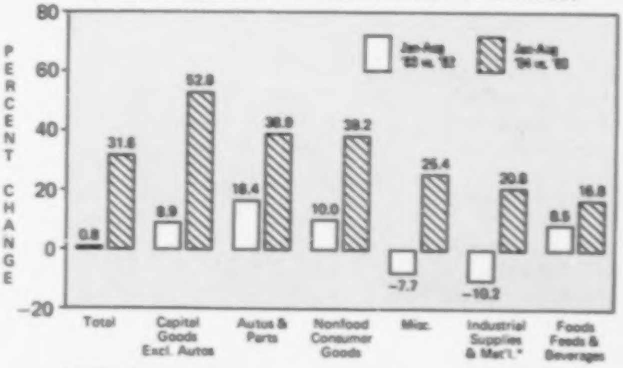
But the dollar's current strength has allowed this country's industrial sector to replenish itself more efficiently. The fastest growing category of U.S. imports so far this year has been capital goods (excluding automotive vehicles and parts), as U.S. industry has tapped overseas sources in order to upgrade this country's industrial infrastructure (see chart). Between January and August, capital goods imports added up to $39.9 billion—only $1 billion less than the total capital goods imports of the U.S. in the entire year 1983.

Indeed, not all of the imports which are used by American industry in producing goods or services are included in the import classification of capital goods. Trucks, buses and other commercial vehicle imports are included in imports under automotive vehicles, parts and engines. Such vehicles and parts have amounted to about 15 percent of total automotive imports so far this year. These imports should also be considered as capital goods.

Unlike consumer goods, which are used by individuals and families, thus adding little or nothing to additional economic growth, capital goods become part of the nation's capital stock and contribute directly to future production and to further economic growth. Consequently, imports of capital goods, while adding to the trade deficit, also help to increase productivity and improve competitiveness.

Not all U.S. manufacturers take this view, however, particularly producers of capital goods. Machine tool orders, for example, rose 83 percent in the first three quarters of this year compared with the same period in 1983—yet over 42 percent of this year's stock of new machine tools is expected to be imported.

SELECTED COMPONENTS OF U.S. IMPORTS
(PERCENT CHANGE FROM SAME PERIOD A YEAR AGO)



*Includes petroleum imports.

. . . Give U.S. Producers . . .

The strong dollar also helps U.S. business in other ways. The benefits of lower dollar costs for industrial imports are clearly apparent in the growth of imports of industrial supplies and materials. The average trade-weighted value of the dollar in the January-August period this year was 9.1 percent above its average value in the same period of 1983. And in the first eight months of 1984, U.S. business brought in $82.6 billion in industrial supplies compared with $68.4 billion a year ago—a 21 percent increase. Not only has the utilization of these sources of materials contributed to lowering domestic costs for U.S. manufacturers, but it has helped to spread the benefits of the economic upswing.

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Further, business outsourcing overseas, in which labor-intensive segments of the manufacturing process are undertaken in courtries where lower labor costs prevail, results in lower overall costs to the U.S. manufacturer and lower prices to the consumer. These advantages are particularly apparent in the electronics industry where foreign assembly of U.S.-manufactured components is a common practice. Some high-technology products such as telecommunications equipment and electronic office machines have key subassemblies put together abroad from U.S.-made parts. These are shipped overseas and then returned to the United States for final assembly. The developing countries of Southeast Asia are important partners in this process. In 1983, for example, the U.S. exported $2.4 billion in electronic components and parts to the four Asian developing countries of Malaysia, the Philippines, Singapore and South Korea. These parts were then re-imported at a cost of $2.9 billion—the difference being the value added by foreign processing.

. . . More Bang For The Buck

The high-tech industries are not the only ones exploiting the lower cost advantages of overseas production. Many of the more traditional industries are going abroad as well. Some U.S. machine tool companies are moving portions of their manufacturing operations away from this country. And, in

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 10/31/84	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	157.936	+ 1.291	+ 2.608
Loans to Depository Inst.	5.187	− .458	+ 4.747
Float	.569	− .110	− .643
Total Reserve Bank Credit	176.151	+ .985	+10.003
Treasury Deposits with Federal Reserve Banks	3.603	+ .667	− .120
Currency in Circulation	175.864	− .528	+11.327
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	119.233	+ .175	+ 9.125
	10/24/84		
Member Bank Reserves:			
Total Reserves Held	37.824	− .264	+ 1.949
Excess (Deficiency)	.453	− .463	− .001
Net Free Reserves	.080	− .391	+ .045
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M1 (10/22/84)	544.7	+ 0.5‡	+ 5.0‡
M2 (September '84)	2,306.4	+ 6.0	+ 7.4
M3 (September '84)	2,891.0	+ 7.2	+ 9.5
Domestic Nonfinancial Debt (2nd Q'84)	5,589.6	+ 12.9	+ 12.4

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 11/2/84	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	8.75%	8.85%	9.00%
* Federal Agencies	9.04	9.73	10.39
* Project Notes—Taxfree (46% Taxable Equivalent)	10.09	10.09	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	9.55	9.75	10.25

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	9.50%	Dec.	9.60%
15- 29 days	9.50	Jan.	9.60
30- 59 days	9.50	Feb.	9.60
60- 89 days	9.50	Mar.	9.65
90-179 days	9.50	Apr.	9.65
180-239 days	9.50	May	9.60
240-270 days	9.50		

‡Industrial Paper—Prime		†Federal Funds	
30- 89 days	9.35%		
90-120 days	9.28	Effective Rate	10.00%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'84	$ 3,701	$ 3,645	$ 3,347
Gross National Product (1972 Dollars)*	3rd Q'84	$ 1,650	$ 1,639	$ 1,550
Percent Change, Annual Rate	3rd Q'84	2.7	7.1	6.8
Change in Consumer Prices (new series)*	Sep '84	4.8%	6.0%	4.8%
Change in Producer Prices*	Sep '84	− 2.4%	− 1.2%	1.2%
Civilian Employment (Thousands of Persons)†	Oct '84n	105,586	105,239	101,970
Unemployment as % of Civilian Labor Force†	Oct '84n	7.4%	7.4%	8.8%
Personal Income*	Sep '84	$ 3,071	$ 3,045	$ 2,785
Leading Indicators Composite Index (1967=100)†	Sep '84n	164.6	164.0r	160.0
Industrial Production Index (1967=100) †	Sep '84	165.1	166.1	153.8
Net Change in Consumer Installment Credit †	Aug '84	$ 6.00	$ 7.11	$ 4.08
U.S. Merchandise Trade Balance †	Sep '84n	−$ 12.65	−$ 9.86	−$ 6.22
Plant and Equipment Expenditures*	4th Q'84	$318.33(a)	$316.22(a)	$283.96
Private Housing Starts (Thousands of Units)*	Sep '84	1,676	1,539	1,679
New Construction Expenditures*	Sep '84n	$ 315.3	$ 311.9r	$ 281.7
Total Business Inventories †	Aug '84	$ 556.0	$ 551.4	$ 504.3
Total Business Sales †	Aug '84	$ 410.7	$ 411.4	$ 373.3

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

some cases, they are importing completed machines made to their own specifications by foreign suppliers in much the same way that U.S. automobile manufacturers supplement their domestic product line with vehicles produced abroad.

Some of the benefits which U.S. business derives from the strong dollar are more diffuse and less easy to quantify. Among these is the discipline imposed on management and labor by increased competition from abroad, particularly as it relates to domestic labor costs and productivity. For instance, in July and August imported steel accounted for over 30 percent of U.S. steel consumption compared with about 20 percent for the year 1983. This rise in imports has caused U.S. producers to sell steel at steeply discounted prices. Yet another benefit is the efficiency created by the larger number of suppliers and wider range of alternative industrial inputs available when both domestic and foreign suppliers are competing for orders.

When both the direct and the indirect benefits of the strong dollar are considered, there may well be more pluses than minuses for U.S. business than is currently realized. Certainly, when the very great contribution which the lower dollar cost of imports and U.S. import-competitive products is making to containing domestic inflation is considered, the positive impact of the strong dollar is strong, indeed. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since	
		Week Ago	Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (10/17/84)	160,065	+ 649	+16,793
New York City (10/24/84)	34,178	– 235	+ 3,297
Commercial Paper (10/24/84)	231,878	– 1,426	+53,633

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (10/17/84)	245,490	– 986	+28,171
New York City (10/24/84)	64,288	+ 73	+ 7,100

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (10/17/84)	627,370	– 2,700	+92,160
New York City (10/24/84)	141,191	+ 1,182	+20,960

Financial Markets

	Friday 11/2/84	Change Since	
		Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.28%	– .31	+ .18
180-Day Bills†	9.71	– .32	+ .21
Longest Bills†	10.09	– .32	+ .14
Recent Issues:			
11 5/8s 10/31/86	10.87	– .36	
11 3/8s 9/30/88	11.40	– .21	
12 5/8s 8/15/94	11.61	– .29	
12 1/2s 8/15/14	11.47	– .25	
Municipals:			
Bond Buyer–20 Bond Index* (11/1/84)	10.11%	+ .06	+ .32
Blue List Total ($ Million)	$1,865	+ $322	+ $434
30-Day Visible Supply ($ Million)	$1,777	– $743	– $448
Total	$3,642	– $421	– $ 14
Corporates:			
Moody's Aa Composite (11/1/84)	12.78%	– .15	+ .10
30-Day Visible Supply ($ Million)	$1,735	+ $455	+ $310
Stocks:			
Dow-Jones Averages:			
Industrials	1,216.65	+ 11.70	– 1.64
Transportation	532.32	+ 9.34	– 54.28
Utilities	143.82	+ 2.25	+ 5.24
65 Stocks	482.21	+ 6.09	– 11.72
Standard and Poor's 500 Stocks	167.42	+ 2.13	+ 4.98
N.Y.S.E. Composite Index	96.51	+ 1.17	+ 2.74
N.Y.S.E. Avg. Daily Vol. for Week (000's)	91,062	+ 2,676	+ 7,712

* 46% Taxable equivalent 18.72%.

† Bond equivalent.

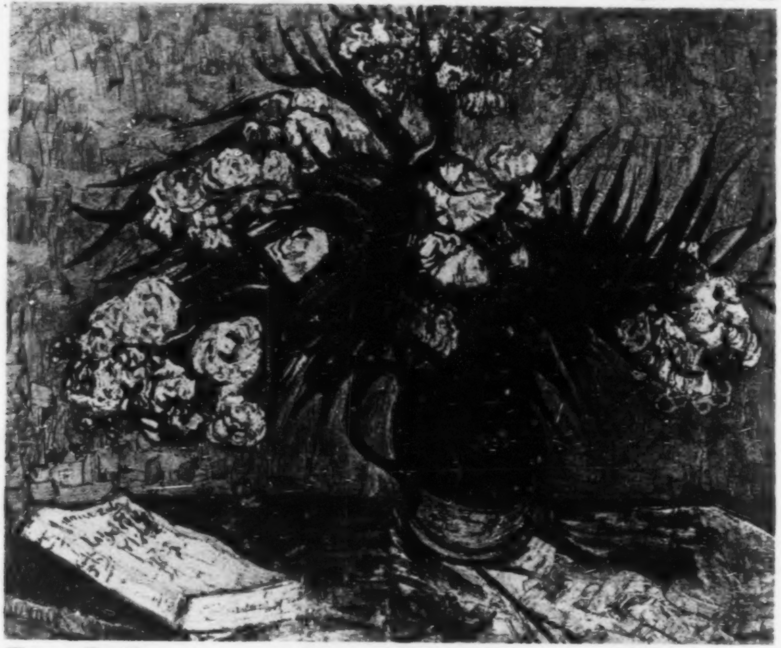
International Rates

	Friday 11/2/84	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	10.25%	9.50%
1 month	9.81	9.69
3 month	10.06	10.13
6 month	10.19	10.56
1 year	10.69	11.00
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.00%	12.20%
Long Term (7 to 15 yrs.)	12.10	12.30

FOREIGN EXCHANGE SPOT RATES

New York Opening (11/2/84)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01681	59.50
Canada	.7631	1.3105
Denmark	.09306	10.7460
France	.1103	9.0650
Germany	.3390	2.9495
Italy	.0005439	1838.50
Japan	.004129	242.20
Mexico	.004773	209.50
Netherlands	.3007	3.3255
Switzerland	.4109	2.4335
U.K.	1.2515	.7990

VAN GOGH



IN ARLES

The Metropolitan Museum of Art
October 18-December 30, 1984

Sponsored by Manufacturers Hanover
and the Robert Wood Johnson, Jr. Charitable Trust

This exhibition gathers over 140 van Gogh works of art that have never been seen together before, and Manufacturers Hanover is pleased to help make it possible.

All visitors must have a ticket for a reserved date and time. Tickets available at the Uris *Center of the Museum* during all public hours. Also through *Ticketron* and *Tele-Tron*, a telephone service that accepts reservations with major credit cards.
For ticketing information, call 570-3970.

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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

FRIDAY, NOVEMBER 9, 1984
VOLUME XXI, NUMBER 40

The Recovery Is Solidly On Track . . .

The third quarter's downshift in the pace of business activity has many observers believing that the economy is about to slip into recession—if it hasn't already. But while the slowdown was steeper than expected, due in part to the United Auto Workers' strike, there is plenty of life left in the two-year-old recovery, and the economic expansion is still solidly on track. The index of leading economic indicators turned up in September, capital spending intentions are strong, and the U.S. and Canadian automobile strikes have been settled. What is more, the recent decline in money market rates should soon give a boost to such interest-sensitive industries as housing and durable goods, while consumer attitudes are brightening just in time for the Holiday shopping season.

While the unemployment rate in October was unchanged from September's 7.4 percent of the labor force, this top-line number masked several favorable developments in the employment situation. For one thing, there was a substantial rise in the number of people employed. The household survey revealed a 350,000-worker rise last month, while nonagricultural businesses posted a 440,000 gain in payroll employment. For another, the number of jobless decreased by 30,000 over the month, making it the twelfth decline in the past 14 months.

The gains in employment were widespread last month, with nearly two-thirds of the industries monitored by the Bureau of Labor Statistics posting increases. But as has been the case since the start of this recovery, most of October's job increases occurred in the service industries. The gains in manufacturing employment were much more subdued; the overall rise was only 55,000.

. . . As The Employment Situation And . . .

To be sure, employment in the service-producing sector was virtually unchanged throughout the recession. By contrast, manufacturing industries have regained only 70 percent of the jobs lost in the recession—a typical development for this stage of the recovery. Of the major industries, employment in the electrical machinery, rubber and plastics, motor vehicles, lumber and wood products and furniture and fixtures industries has surpassed July, 1981 levels. At the other side of the spectrum are the chemical, textile and primary metals industries, which have regained less than 20 percent of lost jobs—while the petroleum and coal and leather industries are still paring their payrolls.

Nevertheless, the entry of 320,000 persons into the labor force shows people's confidence in the health of the economy. Generally, people enter the job market when they believe that business conditions are improving. This is underscored by the findings of the Conference Board's October consumer confidence survey. It showed that the number of people expecting business conditions to improve in the near term rose to the highest level since last April, when the economy was expanding briskly. And with an improved economy, people believe their employment and financial prospects will brighten, too. As a result, consumers now plan to step up spending on new and used cars, carpeting and such home appliances as televisions, vacuum cleaners and washing machines and dryers.

. . . Consumer Financial Prospects Improve . . .

A rosy consumer outlook is a necessary ingredient for a successful Holiday shopping season. And although sales patterns have been turbulent in many parts of the country in the past several months, in September and October, non-auto retail sales ran well above the strong levels of a year ago. For example, despite unseasonably warm weather in October—which stifled purchases of winter merchandise—18 major department stores reported a nearly ten percent rise in sales, year-over-year. This is a healthy gain, especially in view of the current low inflation environment. September's consumer price index for retail goods was only 2.9 percent higher than a year ago.

The summer lull in consumer spending has significantly improved consumers' financial health. While buyers tightened their purse strings, personal income rose by an 8.4 percent annual rate in the third quarter compared with the second, about even with the average quarterly gain for this expansion. In addition to a good-sized gain in wages and salaries, interest and dividend incomes expanded at a

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fast clip. As a result, the personal savings rate rose from 5.7 percent of disposable personal income in May to 6.3 percent by August.

Despite this improvement, October's overall retail sales figures were probably subdued. This is because domestic car sales for the month slumped below seven million units at a seasonally adjusted annual rate, reflecting severe shortages of popular models. Although the UAW strikes in the U.S. and Canada did not last all that long, they depressed auto and truck production by about 200,000 units in September and October. Currently, the inventory of domestic cars stands at about 51 days' supply—substantially below levels considered normal by the industry. Stocks of certain hot-selling models have thinned to only about 20 days' supply—which means that in many parts of the country, buyers must wait weeks for delivery.

. . . And Interest Rates Decline

Sparked by only a modest easing in mortgage interest rates, sales of new homes in September soared nearly 22 percent, month-over-month the sharpest monthly rise in more than four years. Thus, new home sales returned to the levels of last March and were 14 percent higher than a year ago. At the same time, housing starts

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 11/7/84	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	161.071	+ 3.135	+ 7.543
Loans to Depository Inst.	5.561	+ .374	+ 4.519
Float	.225	− .344	− 1.838
Total Reserve Bank Credit	179.406	+ 3.255	+13.662
Treasury Deposits with Federal Reserve Banks	3.191	− .612	+ .284
Currency in Circulation	177.009	+ 1.145	+11.019
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	118.367	− .866	+ 6.235
	11/7/84		
Member Bank Reserves:			
Total Reserves Held	38.054	+ .187	+ 3.358
Excess (Deficiency)	.715	+ .251	+ .135
Net Borrowed Reserves	.744	+ .835	+ .407
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M1 (10/29/84)	544.1	+ 0.2‡	+ 4.7‡
M2 (September '84)	2,306.7	+ 6.1	+ 7.4
M3 (September '84)	2,891.3	+ 7.3	+ 9.6
Domestic Nonfinancial Debt (2nd Q'84)	5,589.6	+ 12.9	+ 12.4

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 11/9/84	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	8.60%	8.90%	9.05%
* Federal Agencies	9.05	9.30	10.40
* Project Notes—Taxfree (46% Taxable Equivalent)	9.91	10.09	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	9.28	9.52	10.00

‡Finance Company Paper—Prime	
5- 14 days	9.25%
15- 29 days	9.25
30- 59 days	9.25
60- 89 days	9.25
90-179 days	9.25
180-239 days	9.25
240-270 days	9.25

‡* Bankers' Acceptances	
Dec.	9.35%
Jan.	9.35
Feb.	9.35
Mar.	9.35
Apr.	9.35
May	9.35

‡Industrial Paper—Prime	
30- 89 days	9.00%
90-120 days	8.90

†Federal Funds Effective Rate 9.50%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'84	$ 3,701	$ 3,645	$ 3,347
Gross National Product (1972 Dollars)*	3rd Q'84	$ 1,650	$ 1,639	$ 1,550
Percent Change, Annual Rate	3rd Q'84	2.7	7.1	6.8
Change in Consumer Prices (new series)*	Sep '84	4.8%	6.0%	4.8%
Change in Producer Prices*	Oct '84n	− 2.4%	− 2.4%	2.4%
Civilian Employment (Thousands of Persons)†	Oct '84	105,586	105,239	101,970
Unemployment as % of Civilian Labor Force†	Oct '84	7.4%	7.4%	8.8%
Personal Income*	Sep '84	$ 3,071	$ 3,045	$ 2,785
Leading Indicators Composite Index (1967=100)†	Sep '84	164.6	164.0	160.0
Industrial Production Index (1967=100) †	Sep '84	165.1	166.1	153.8
Net Change in Consumer Installment Credit †	Aug '84	$ 6.00	$ 7.11	$ 4.09
U.S. Merchandise Trade Balance †	Sep '84	−$ 12.65	−$ 9.86	−$ 6.22
Plant and Equipment Expenditures*	4th Q'84	$318.33(a)	$316.22(a)	$283.96
Private Housing Starts (Thousands of Units)*	Sep '84	1,676	1,539	1,679
New Construction Expenditures*	Sep '84	$ 315.3	$ 311.9	$ 281.7
Total Business Inventories †	Aug '84	$ 556.0	$ 551.4	$ 504.3
Total Business Sales †	Aug '84	$ 410.7	$ 411.4	$ 373.3

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

jumped 8.9 percent in September compared with August. But while future increases may not be as dramatic in the coming months, the outlook for residential building continued to improve in October. The Federal Home Loan Bank Board reports that fixed-rate mortgages of 25 years or longer have come down from July's 15.2 percent to less than 14¾ percent in October. More recent surveys reveal that by the end of last month, rates had descended another one-half of a percentage point. This is significant for the potential homebuyer of a median-priced home, since every one percentage point decline saves about $50 per month.

Finally, there is another source of strength. Business has maintained a fairly low level of inventories relative to sales. In most industries, stocks are at one of their lowest levels relative to sales in the postwar era, taking out the effects of inflation. With consumer spending rising once again, and the important Holiday shopping season rapidly approaching, many businesses will be adding stocks—fueling further the pace of economic activity. Already in September, new orders for nondefense capital goods posted a good-sized four percent rise, month-over-month, despite a sharp 13 percent drop in orders for transportation equipment.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (10/24/84)	160,574	+ 495	+16,992
New York City (10/31/84)	33,835	– 343	+ 2,857
Commercial Paper (10/31/84)	230,525	– 1,353	+51,431

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/24/84)	245,894	+ 291	+28,869
New York City (10/31/84)	64,021	– 267	+ 6,063

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/24/84)	630,067	+ 2,567	+93,312
New York City (10/31/84)	143,297	+ 2,022	+20,278

Financial Markets

	Friday 11/9/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.00%	– .28	– .05
180-Day Bills†	9.51	– .20	+ .03
Longest Bills†	9.97	– .12	+ .15
Recent Issues:			
$11\frac{5}{8}$s 10/31/86	11.10	+ .23	
$11\frac{3}{8}$s 9/30/88	11.48	+ .08	
$12\frac{5}{8}$s 8/15/94	11.77	+ .16	
$12\frac{1}{2}$s 8/15/14	11.67	+ .20	
Municipals:			
Bond Buyer–20 Bond Index* (11/8/84)	10.17%	+ .06	+ .42
Blue List Total ($ Million)	$1,732	–$ 133	+ $ 301
30-Day Visible Supply ($ Million)	$3,450	+$1,673	+ $1,225
Total	$5,182	+$1,540	+ $1,526
Corporates:			
Moody's Aa Composite (11/8/84)	12.78%	–0–	+ .12
30-Day Visible Supply ($ Million)	$5,007	+$3,272	+ $3,257
Stocks:			
Dow-Jones Averages:			
Industrials	1,218.97	+ 2.32	– 16.90
Transportation	532.43	+ .11	– 58
Utilities	145.77	+ 1.95	+ 9.06
65 Stocks	483.75	+ 1.54	– 14.26
Standard and Poor's 500 Stocks	167.60	+ .18	+ 3.19
N.Y.S.E. Composite Index	96.73	+ .22	+ 1.98
N.Y.S.E. Avg. Daily Vol. for Week (000's)	93,946	+ 2,884	+ 17,264

* 46% Taxable equivalent 18.83%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 11/9/84	Week Ago
Overnight	9.38%	10.25%
1 month	9.50	9.81
3 month	9.81	10.06
6 month	10.06	10.19
1 year	10.63	10.69
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.00%	12.00%
Long Term (7 to 15 yrs.)	12.00	12.10

FOREIGN EXCHANGE SPOT RATES

New York Opening (11/9/84)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01668	59.96
Canada	.7589	1.3177
Denmark	.09400	10.6380
France	.1099	9.0965
Germany	.3373	2.9650
Italy	.0005420	1845.00
Japan	.004136	241.78
Mexico	.004785	209.00
Netherlands	.2993	3.3410
Switzerland	.4128	2.4223
U.K.	1.2575	.7952

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The Manufacturers
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Financial
Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, NOVEMBER 19, 1984
VOLUME XXI, NUMBER 41

The Four Corners Of America . . .

Although several of the latest national statistics indicate that the pace of the business expansion is slowing, many states across the country are still enjoying the benefits of a strong economic rebound. By and large, these are the states whose economic fortunes are tied primarily to such industries as high technology, defense, financial services, retail trade and tourism. In such states, workers are still finding new jobs, consumers are spending generously and strong nonresidential construction is offsetting the slack in homebuilding.

A quick journey to the four corners of America confirms that the business expansion has not yet run its course. Take, for example, California—the nation's most populous state. Following a very strong 1983, business activity continues to surge ahead this year. Total nonagricultural employment increased by 475,000 in the past 12 months. Almost all sectors of California's economy are sharing in the expansion. As a result, the state's jobless rate declined to seven percent in October, 1984—well below the high of 11 percent reached in December, 1982. The state's broad gains in employment combined with relatively low rates of inflation have led to a strong growth in people's buying power.

California owes its good economic times to the diversification and flexibility of its industrial base, which ranges from movies and tourism to aerospace and defense-related manufacturing. One of the fastest growing sectors of California's economy is high technology. It encompasses a wide range of products from microchips to computers, communications equipment, aircraft, missiles and space vehicles. Originally attracted to California because of its mild climate and excellent educational system which provides skilled labor, the high-tech sector today represents a significant part of the state's economy. It now accounts for approximately one-third of all manufacturing jobs in the state. California's high-tech sector is benefiting from the national recovery, which has brought increased demands for aircraft and electronic equipment, as both businesses and consumers have increased airline travel and purchases of computers. It is also being buoyed by the current defense buildup, the Space Shuttle and other NASA programs.

At the same time, however, California's economic base is shifting from manufacturing to services—a growing trend in the rest of the country as well. Los Angeles has emerged as a gateway to Asia and as the financial services center of the West.

. . . Tell Four Similar Stories . . .

Moving from sunny California to equally sunny Florida, buoyant business activity can also be found. The Sunshine State's economic performance overshadows the other states of the southeastern region. The latest census of the population shows that Florida has pushed aside Ohio to become the nation's sixth largest state. This strong population gain allowed homebuilding and nonresidential construction activity to experience solid growth. While residential construction dominates total building activity in the state, such nonresidential construction activities as offices, manufacturing and retail space, as well as educational facilities, hospitals, public and religious buildings, are growing most rapidly.

Florida has also become the financial center of the Caribbean Basin. Economic problems and currency depreciation in several Latin American countries did affect the international economic activity of the state, but the worst seems to be over. After a sharp drop in 1983, international trade in Florida is on the rise again. The U.S. Department of Commerce reports that Florida's trade (exports and imports) grew by 28 percent during the first eight months of this year from the same period in 1983. While most of this increase is attributable to growing imports, there has been a steady rise in exports as well. In fact, exports have been running above year-ago levels for seven consecutive months.

Finally, Florida's ability to court high-tech businesses has produced a solid dividend. The high-tech share of manufacturing employment now amounts to more than 40 percent. The state ranks seventh among all states in the number of persons employed in electronics and related manufacturing. According to Florida's Department of Commerce, one out of every four new jobs is being created by the high-tech sector.

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. . . Of The Expansion's Resiliency

In the Northeast, Massachusetts is another state where a diversified economic base and growing defense spending are elements of strength. The state enjoys one of the lowest jobless rates in the country. In October, 1984, for example, only 3.4 percent of the state's labor force was unemployed compared with the 7.5 percent unemployment rate for the country as a whole. The state's current prosperity is the result of efforts to transform its economic base from aging traditional manufacturing to more diversified high-tech and service-oriented industries. These efforts paid off: Massachusetts has emerged as the East Coast center for high-technology industries. The growth of the high-tech sector has brought with it an explosion of supporting service industries. Boston, which is New England's center for finance, insurance, education and health, has more than half of its work force engaged in service-oriented industries.

This increased business optimism is reflected in the state's building activity. The F.W. Dodge division of McGraw-Hill reports that in September, 1984 nonresidential construction was up more than 100 percent from the same period last year. Another boon to Massachusetts is derived from moderating fuel prices. Massachusetts' traditionally high energy costs are dropping relative to the southern states, thanks to the softness in oil prices.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	11/14/84	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	161.451	+ .380	+ 4.812
Loans to Depository Inst.	4.683	– .878	+ 3.662
Float	.701	+ .488	– 1.311
Total Reserve Bank Credit	179.595	+ .180	+11.373
Treasury Deposits with Federal Reserve Banks	3.128	– .063	– .079
Currency in Circulation	178.589	+ 1.580	+11.094
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	117.677	– .690	+ 4.693
Member Bank Reserves:	11/7/84		
Total Reserves Held	37.941	+ .078	+ 3.245
Excess (Deficiency)	.531	+ .088	– .049
Net Borrowed Reserves	.928	+ .998	+ .591
		% Change Since	
Monetary Aggregates †		Three Months Ago*	Year Ago
M1 (11/5/84)	546.7	+ 0.3‡	+ 4.7‡
M2 (October '84)	2,317.0	+ 6.2	+ 6.9
M3 (October '84)	2,916.0	+ 7.8	+ 9.7
Domestic Nonfinancial Debt (2nd Q'84)	5,589.6	+ 12.9	+ 12.4

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 11/16/84	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	8.30%	8.50%	8.90%
* Federal Agencies	8.96	9.38	10.00
* Project Notes–Taxfree (46% Taxable Equivalent)	9.90	10.09	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	9.35	9.55	10.15

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	9.15%	Dec.	9.15%
15- 29 days	9.15	Jan.	9.15
30- 59 days	9.10	Feb.	9.20
60- 89 days	9.00	Mar.	9.20
90-179 days	8.85	Apr.	9.20
180-239 days	8.75	May	9.20
240-270 days	8.75		

‡ Industrial Paper–Prime			
30- 89 days	9.10%	†Federal Funds	
90-120 days	8.90	Effective Rate	9.60%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'84	$ 3,701	$ 3,645	$ 3,347
Gross National Product (1972 Dollars)*	3rd Q'84	$ 1,650	$ 1,639	$ 1,550
Percent Change, Annual Rate	3rd Q'84	2.7	7.1	6.8
Change in Consumer Prices (new series)*	Sep '84	4.8%	6.0%	4.8%
Change in Producer Prices*	Oct '84	– 2.4%	– 2.4%	2.4%
Civilian Employment (Thousands of Persons)†	Oct '84	105,586	105,239	101,970
Unemployment as % of Civilian Labor Force†	Oct '84	7.4%	7.4%	8.8%
Personal Income*	Sep '84	$ 3,071	$ 3,045	$ 2,785
Leading Indicators Composite Index (1967=100)†	Sep '84	164.6	164.0	160.9
Industrial Production Index (1967=100) †	Oct '84n	165.2	165.2r	155.0
Net Change in Consumer Installment Credit †	Sep '84n	$ 4.28	$ 6.00	$ 2.55
U.S. Merchandise Trade Balance †	Sep '84	–$ 12.65	–$ 9.86	–$ 6.22
Plant and Equipment Expenditures*	4th Q'84	$318.33(a)	$316.22(a)	$283.96
Private Housing Starts (Thousands of Units)*	Sep '84	1,676	1,539	1,679
New Construction Expenditures*	Sep '84	$ 315.3	$ 311.9	$ 281.7
Total Business Inventories †	Sep '84n	$ 559.8	$ 556.5r	$ 507.0
Total Business Sales †	Sep '84n	$ 408.9	$ 411.2r	$ 379.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

In the northwest corner of the country, Washington state can also boast of strong growth in nonfarm employment. It is being led primarily by booming defense-related manufacturing, the transportation equipment industry, construction, trade and services. Increased hiring has lowered the state's jobless rate from the double-digit levels that stubbornly prevailed in the last three years to 8.4 percent in September, 1984. Most of the new jobs, however, are centered around the Greater Seattle area, where about half of the state's population lives. Downtown Seattle is becoming a major trade and service center of the region and it is among the top ten fastest growing metropolitan areas in the country.

However, the state's lumber and mining industries have been largely bypassed by the current business expansion. The lumber industry, which provides jobs to about 20 percent of the state's manufacturing work force, has been shrinking its payrolls and closing sawmills, notwithstanding the fact that new housing construction has recovered from its 1982 low of 1.1 million housing starts. The industry's problems stem from a decline in lumber prices caused by overproduction and stiff Canadian competition. The undervalued Canadian dollar has allowed Canadian producers to capture a large share of the U.S. lumber market. At the same time, the state is also losing market share to southern sawmills that use lower-cost logs and employ less expensive labor.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (10/31/84)	159,208	– 1,451	+15,299
New York City (11/7/84)	33,916	+ 81	+ 3,342
Commercial Paper (11/7/84)	233,191	+ 2,680	+52,251

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/31/84)	246,932	+ 926	+28,226
New York City (11/7/84)	64,437	+ 416	+ 5,750

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/31/84)	636,986	+ 6,505	+95,360
New York City (11/7/84)	143,752	+ 611	+21,924

Financial Markets

	Friday 11/16/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.90%	– .10	– .28
180-Day Bills†	9.35	– .16	– .25
Longest Bills†	9.80	– .17	– .12
Recent Issues:			
$11\frac{5}{8}$s 10/31/86	10.70	– .40	
$11\frac{3}{8}$s 9/30/88	11.20	– .28	
$11\frac{5}{8}$s 11/15/94	11.70	NA	
$12\frac{1}{2}$s 8/15/14	11.65	– .02	
Municipals:			
Bond Buyer–20 Bond Index* (11/15/84)	10.31%	+ .14	+ .61
Blue List Total ($ Million)	$1,786	+$ 54	+ $ 305
30-Day Visible Supply ($ Million)	$2,567	–$ 883	– $ 746
Total	$4,353	–$ 829	– $ 441
Corporates:			
Moody's Aa Composite (11/15/84)	12.74%	– .04	+ .13
30-Day Visible Supply ($ Million)	$1,690	–$3,317	+ $1,290
Stocks:			
Dow-Jones Averages:			
Industrials	1,187.94	– 31.03	– 62.97
Transportation	516.22	– 16.21	– 89.82
Utilities	143.77	– 2.00	+ 6.44
65 Stocks	471.65	– 12.10	– 34.03
Standard and Poor's 500 Stocks	164.10	– 3.50	– .99
N.Y.S.E. Composite Index	94.70	– 2.03	– .76
N.Y.S.E. Avg. Daily Vol. for Week (000's)	73,042	–20,904	– 10,550

* 46% Taxable equivalent 19.09%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 11/16/84	Week Ago
Overnight	9.50%	9.38%
1 month	9.38	9.50
3 month	9.63	9.81
6 month	9.89	10.06
1 year	10.63	10.63
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.90%	12.00%
Long Term (7 to 15 yrs.)	11.90	12.00

FOREIGN EXCHANGE SPOT RATES

New York Opening (11/16/84)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01671	59.83
Canada	.7601	1.3157
Denmark	.09355	10.6890
France	.1100	9.0950
Germany	.3374	2.9635
Italy	.0005426	1843.00
Japan	.004124	242.50
Mexico	.004762	210.00
Netherlands	.2992	3.3418
Switzerland	.4094	2.4428
U.K.	1.2600	.7937

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The Manufacturers Hanover
Financial Digest
Weekly Commentary,
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and Business Indicators

FRIDAY, NOVEMBER 23, 1984
VOLUME XXI, NUMBER 42

The Downturn In Commodity Prices . . .

After surging with the expansion in U.S. economic activity, commodity prices have recently taken a tumble. Rising by 21 percent between the beginning of this recovery in November, 1982 and last March, the IMF's all commodity index fell by 10 percent during the next seven months. Commodity prices are very responsive to economic growth. As economic activity picks up so does demand, especially for industrial raw materials. For example, in 1983 the first full year of recovery, imports of industrial inputs (except oil) grew six percent over the 1982 level as importers competed with domestic producers to meet the burgeoning demand of a reinvigorated economy.

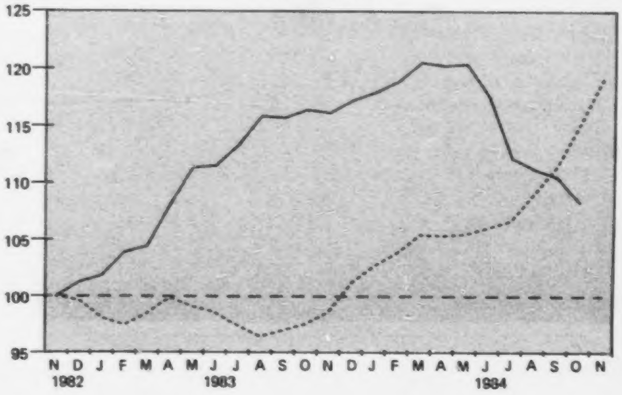
Since most commodities come from several sources of supply globally and are required by most every country, commodity prices tend toward a common world price. Prices for most commodities have risen sharply since the beginning of the current recovery due to escalating U.S. demand. Indeed, until recently commodity price performance in this recovery substantially exceeded the average rise in the four previous recoveries in which such data have been kept (see chart).

. . . May Soon Be Reversed . . .

But now the situation is beginning to change. There has been a slowing of overall economic growth in the United States. In the third quarter of this year real economic growth was 1.9 percent at a seasonally adjusted annual rate compared with an average of 8.6 percent for the first half. Clearly the recovery is slowing and commodity prices reflect the easing of demand. What is more, real economic growth in most of the other industrial countries has not been impressive so far. Real growth in Europe in the past year has been close to two percent and the forecasts for next year are not much better—perhaps 2.5 percent. Consequently, Western Europe's contribution to demand for commodities may not change much. Japan's real growth next year will also be close to this year's level and thus will generate only modest increases in the demand for commodities. If commodity prices are to recover, benefiting both U.S. producers and the commodity-exporting nations (largely developing countries), then the burden may well be on the United States' economy which now may be positioning itself to do just that.

High interest rates, which sapped some of the strength of this vigorous recovery, have recently begun to decline. As U.S. real interest rates have fallen, however, so have real interest rates in most other countries which also hope to reinvigorate their recoveries. This coincident downward move in global interest rates is likely to raise global growth prospects. If this occurs, commodity prices may well recover and, indeed, may hit new highs next year.

ALL COMMODITIES INDEX:
CURRENT RECOVERY (LINE), AVG. OF 4 PREVIOUS RECOVERIES (DOT)
(TROUGH=100)



. . . If Interest Rates Move Lower . . .

If anything is able to stem the decline in commodity prices, it would be a brisker pace of business throughout the industrial world—prospects for which have undoubtedly been enhanced by the sharp drop in U.S. domestic interest rates. Both short- and long-term interest rates have moved substantially lower in recent weeks, spurred downward by the slowing economy and the Federal Reserve's vigorous efforts to reverse this trend by easing monetary policy. Not even the disturbing likelihood that the Federal government's deficit in the current fiscal year would hit $200 billion, or

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about $30 billion higher than initially anticipated, could stem the move toward lower interest rates. Since the combination of subdued economic growth and a generally accommodative Fed is likely to persist for quite some time, the stage is set for even lower interest rates ahead.

Take, for example, the economy. The easing of such key business statistics as housing starts, building permits and retail sales in October all suggest that economic activity will be restrained in coming months, while the downward revision of real gross national product growth in the third quarter—from a 2.7 percent seasonally adjusted annual rate to a 1.9 percent pace—indicates that the economy in recent months was even weaker than originally thought. And while it still appears a good bet that the rate of growth will pick up as auto production is stepped up and housing starts rebound in line with the downturn in mortgage interest rates, it may not be all that apparent in the current quarter, when GNP growth will be hard pressed to match even the anemic, third quarter number. Still, with two of the essential ingredients for the onset of renewed recession—namely, excessive inventories in relation to sales and a tightening of the money and credit reins—absent, today's growth pause should be just that: Only a pause in what has

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 11/14/84	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	161.451	+ .380	+ 4.812
Loans to Depository Inst.	4.683	– .878	+ 3.662
Float	.701	+ .488	– 1.311
Total Reserve Bank Credit	179.595	+ .180	+11.373
Treasury Deposits with Federal Reserve Banks	3.128	– .063	– .079
Currency in Circulation	178.589	+ 1.580	+11.094
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	117.677	– .690	+ 4.693
	11/7/84		
Member Bank Reserves:			
Total Reserves Held	37.941	+ .078	+ 3.245
Excess (Deficiency)	.531	+ .088	– .049
Net Borrowed Reserves	.928	+ .998	+ .591
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M1 (11/5/84)	546.7	+ 0.3‡	+ 4.7‡
M2 (October '84)	2,317.0	+ 6.2	+ 6.9
M3 (October '84)	2,916.0	+ 7.8	+ 9.7
Domestic Nonfinancial Debt (2nd Q'84)	5,589.6	+ 12.9	+ 12.4

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 11/21/84	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	8.20%	8.35%	8.65%
* Federal Agencies	8.31	8.87	9.33
* Project Notes—Taxfree (46% Taxable Equivalent)	9.91	10.09	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	9.18	9.25	9.90

‡Finance Company Paper—Prime	
5- 14 days	8.95%
15- 29 days	8.95
30- 59 days	8.95
60- 89 days	8.95
90-179 days	9.00
180-239 days	9.00
240-270 days	9.00

‡* Bankers' Acceptances	
Dec.	9.00%
Jan.	9.00
Feb.	9.00
Mar.	9.00
Apr.	9.03
May	8.98

‡Industrial Paper—Prime	
30- 89 days	8.90%
90-120 days	8.75

†Federal Funds Effective Rate 9.20%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'84	$ 3,695r	$ 3,645	$ 3,347
Gross National Product (1972 Dollars)*	3rd Q'84	$ 1,647r	$ 1,639	$ 1,550
Percent Change, Annual Rate	3rd Q'84	1.9r	7.1	6.8
Change in Consumer Prices (new series)*	Oct '84n	4.8%	4.8%	4.8%
Change in Producer Prices*	Oct '84	– 2.4%	– 2.4%	2.4%
Civilian Employment (Thousands of Persons)†	Oct '84	105,586	105,239	101,970
Unemployment as % of Civilian Labor Force†	Oct '84	7.4%	7.4%	8.8%
Personal Income*	Oct '84n	$ 3,086	$ 3,068r	$ 2,815
Leading Indicators Composite Index (1967=100)†	Sep '84	164.6	164.0	160.0
Industrial Production Index (1967=100) †	Oct '84	165.2	165.2	155.0
Net Change in Consumer Installment Credit †	Sep '84	$ 4.28	$ 6.00	$ 2.55
U.S. Merchandise Trade Balance †	Sep '84	–$ 12.65	–$ 9.86	–$ 6.22
Plant and Equipment Expenditures*	4th Q'84	$318.33(a)	$316.22(a)	$283.96
Private Housing Starts (Thousands of Units)*	Oct '84n	1,515	1,679	1,672
New Construction Expenditures*	Sep '84	$ 315.3	$ 311.9	$ 281.7
Total Business Inventories †	Sep '84	$ 559.8	$ 556.5	$ 507.0
Total Business Sales †	Sep '84	$ 408.9	$ 411.2	$ 379.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

so far been a very healthy business expansion.

. . . And The Economy Speeds Up

To be sure, while inventories could pile up unintentionally if sales slow further, prospects for a tightening of the money and credit reins at this time are just about nil. This is because with inflation rates modest, the pace of business slowing and money supply growth perhaps too well behaved, the Federal Reserve now has ample justification for a substantial easing of the monetary reins. The growth of the M1 money supply has been virtually flat since last summer, and if it is to pick up anytime soon, the Fed will have to liberalize the provision of reserves to the banking system even further. This suggests that with business loan demand still modest and the Fed moving toward ease, it is likely that further downward pressures on interest rates will soon emerge.

Beyond this year, however, if auto sales, housing starts and business inventory spending rebound as expected, short-term interest rates could rise again in early 1985. This is because as long as the impasse between Congress and the Administration continues, the Federal budget deficit will remain enormous—as will the likelihood of a clash between public and private borrowings, not to mention higher interest rates.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (11/7/84)	158,500	− 692	+14,402
New York City (11/7/84)	33,916	+ 81	+ 3,342
Commercial Paper (11/7/84)	233,191	+ 2,680	+52,251

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/7/84)	248,853	+ 1,940	+28,305
New York City (11/7/84)	64,437	+ 416	+ 5,750

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/7/84)	640,268	+ 3,359	+98,231
New York City (11/7/84)	143,752	+ 611	+21,924

Financial Markets

	Wednesday 11/21/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.80%	− .10	− .35
180-Day Bills†	9.15	− .20	− .35
Longest Bills†	9.55	− .25	− .30
Recent Issues:			
$11\frac{5}{8}$s 10/31/86	10.40	− .30	
$11\frac{3}{8}$s 9/30/88	10.95	− .25	
$11\frac{5}{8}$s 11/15/94	11.40	− .30	
$12\frac{1}{2}$s 8/15/14	11.45	− .20	
Municipals:			
Bond Buyer–20 Bond Index* (11/15/84)	10.31%	+ .14	+ .61
Blue List Total ($ Million)	$1,802	+$ 16	+ $ 321
30-Day Visible Supply ($ Million)	$2,318	−$ 249	− $ 995
Total	$4,120	−$ 233	− $ 674
Corporates:			
Moody's Aa Composite (11/20/84)	12.64%	− .10	+ .03
30-Day Visible Supply ($ Million)	$3,800	+$2,110	+ $3,100
Stocks:			
Dow-Jones Averages:			
Industrials	1,201.52	− 5.41	− 74.19
Transportation	523.58	− 2.09	− 86.47
Utilities	143.67	− .56	+ 5.95
65 Stocks	476.48	− 1.90	− 36.09
Standard and Poor's 500 Stocks	164.52	− 1.47	− 2.44
N.Y.S.E. Composite Index	94.79	− .95	− 1.61
N.Y.S.E. Avg. Daily Vol. for Week (000's)	78,370	+ 5,328	− 20,160

* 46% Taxable equivalent 19.09%.

† Bond equivalent.

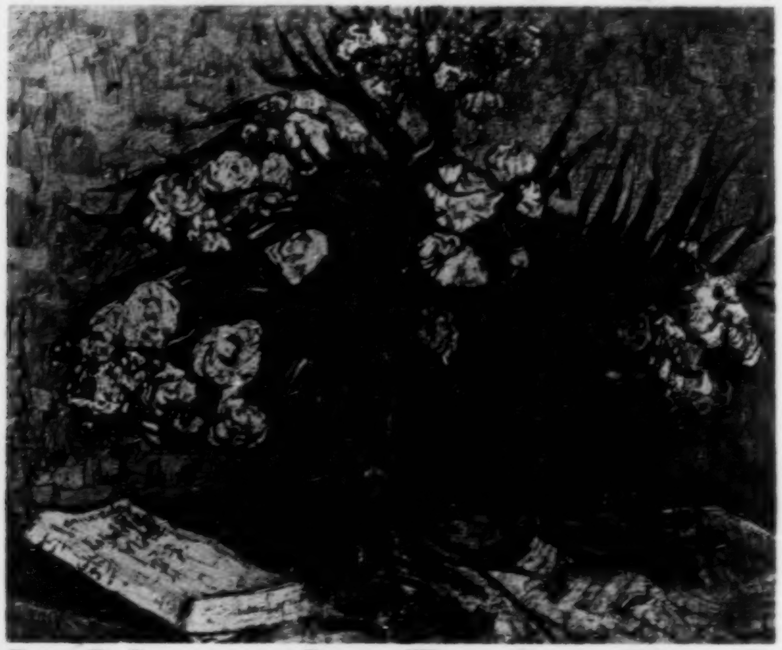
International Rates

EURODOLLAR DEPOSIT RATES (bid)	Wednesday 11/21/84	Week Ago
Overnight	9.00%	9.50%
1 month	9.19	9.38
3 month	9.50	9.63
6 month	9.81	9.89
1 year	10.44	10.63
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.80%	12.20%
Long Term (7 to 15 yrs.)	11.90	12.30

FOREIGN EXCHANGE SPOT RATES

New York Opening (11/21/84)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01646	60.74
Canada	.7587	1.3180
Denmark	.09246	10.8160
France	.1081	9.2525
Germany	.3314	3.0175
Italy	.0005339	1873.00
Japan	.004078	245.20
Mexico	.004739	211.00
Netherlands	.2938	3.4033
Switzerland	.4000	2.4998
U.K.	1.2303	.8128

VAN GOGH



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The Manufacturers Hanover Financial Digest

Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, DECEMBER 3, 1984 VOLUME XXI, NUMBER 43

Despite Slower U.S. GNP Growth . . .

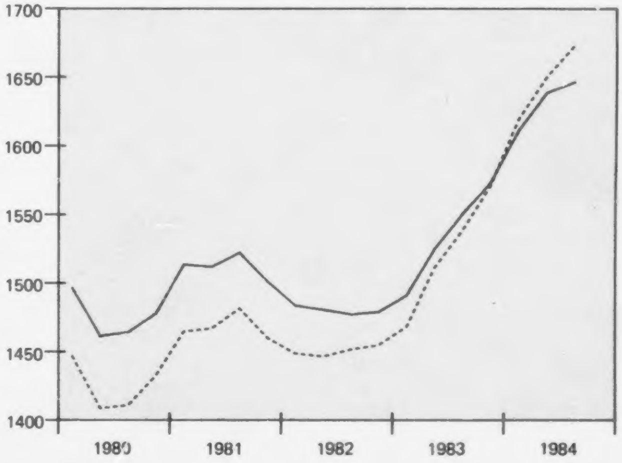
Although recent business statistics tend to paint an increasingly gloomy economic picture for the U.S., there may be more to the economic landscape than meets the eye. To be sure, the strong surge in gross national product growth over the past year and a half slowed in the third quarter to an anemic 1.9 percent seasonally adjusted annual rate of rise. Furthermore, the Commerce Department's index of leading economic indicators fell in October for the third time in the past five months. However, before concluding that another recession is at hand, one should consider other signs which suggest a resumption of economic strength. These include continued high levels of consumer confidence, good-sized increases in personal incomes and the relatively low levels of business inventories. What is more, several recent events—including the receding impact of both the U.S. and Canadian auto strikes, an easing of monetary policy, declining interest rates and lower oil prices—also portend renewed economic vigor.

Looking beneath the surface, the real domestic economy would appear to be still growing, almost ruling out the likelihood of another recession soon, if the past is any guide. In the third quarter, for example, real final domestic demand—real GNP less changes in business inventories and net exports—was still rising at a 3.3 percent clip, while total domestic demand, which adds in the change in inventory spending, rose at an almost six percent inflation-adjusted rate—a good performance even relative to the torrid 7.9 percent rise in the second quarter (see chart). In fact, since the beginning of the current expansion, neither total nor final domestic demand has yet to decline, quarter-to-quarter. And, since in practically all of the postwar business cycles, a recession has not occurred without these first turning negative or flat in at least one of the immediately preceding quarters, it appears unlikely that a recession is just around the corner.

. . . The Expansion Will Continue . . .

Domestic demand should remain fairly strong for several more months. For one thing, employment, while no longer rising as rapidly as it did in 1983 and most of 1984, is still expanding. This should support a steady growth of personal incomes, which in turn should translate into future demand increases. Furthermore, business inventory levels, currently equivalent to 1.37 months of business sales, remain low by historical standards. If sales do pick up during this Holiday selling season, inventory spending will increase and provide the economy with even greater stimulus.

REAL GROSS NATIONAL PRODUCT (LINE) VS.
TOTAL REAL DOMESTIC DEMAND (DOT)
(BILLIONS OF 1972 DOLLARS)



The primary factor behind the rapid deceleration of GNP growth in the third quarter of this year was a strong surge in real imports, which soared 55½ percent at an annual rate in that period. Because of this, and despite a fairly healthy 8.8 percent real rise in U.S. exports, the inflation-adjusted net export deficit in the GNP accounts more than doubled compared with the preceding quarter. If the U.S. net export position had remained unchanged, U.S. GNP growth in the third quarter would have been nearly four percentage points higher, at 5.7 percent.

. . . Due To Firm Domestic Demand . . .

No postwar U.S. business recession has ever resulted from a strongly deteriorating net export position. And it may not occur this time either, because of a pronounced softening of U.S. and

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foreign interest rates as well as falling oil prices, both of which should help to narrow the net export deficit.

The sharp decline in U.S. interest rates in the last several months—a result of both the slower pace of growth and the easing of the Fed's monetary reins—should preserve the U.S. economic expansion in several ways. It will spur housing sales and construction, stabilize the dollar, and allow foreign interest rates to fall, thus helping foreign economies to grow faster and buy more U.S. exports. The recent rapid drop of housing starts, which amounted to 40.8 percent at an annual rate in the third quarter, should slow this quarter since new home sales, responding to lower interest rates, are already picking up.

In September, when interest rates were higher than they are now, sales of new one-family homes jumped 21.9 percent over August's level, following declines in six out of the preceding eight months. This sharply reduced the supply of new, unsold one-family homes from 7.2 months in August to 6.4 months in September, the first decline in six months. However, the downtrend of housing starts could still continue through this quarter because the current inventory of new one-family homes still exceeds supply levels generally deemed comfortable. But a recovery is possible by early next year. More generally, lower interest rates could also stimulate

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 11/28/84	$ Change Since	
		Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	164.115	− .018	+ 5.768
Loans to Depository Inst.	4.148	− .120	+ 3.271
Float	1.156	+ .264	− .580
Total Reserve Bank Credit	180.643	+ .397	+11.603
Treasury Deposits with Federal Reserve Banks	2.984	− .525	+ .103
Currency in Circulation	179.847	+ .755	+11.530
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	118.744	+ 1.456	+ 6.032
	11/21/84		
Member Bank Reserves:			
Total Reserves Held	38.853	+ .861	+ 3.422
Excess (Deficiency)	.628	+ .059	+ .329
Net Free Reserves	.053	+ .943	+ .442
		% Change Since	
Monetary Aggregates†		Three Months Ago*	Year Ago
M1 (11/19/84)	552.1	+ 0.6‡	+ 4.6‡
M2 (October '84)	2,317.2	+ 6.2	+ 6.9
M3 (October '84)	2,917.3	+ 7.9	+ 9.7
Domestic Nonfinancial Debt (3rd Q'84)	5,760.0	+ 11.7	+ 12.9

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 11/30/84	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.95%	8.10%	8.30%
* Federal Agencies	8.49	8.87	9.51
* Project Notes—Taxfree (46% Taxable Equivalent)	9.81	9.81	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.80	9.10	9.70

‡ Finance Company Paper—Prime	
5- 14 days	8.45%
15- 29 days	8.50
30- 59 days	8.55
60- 89 days	8.55
90-179 days	8.43
180-239 days	8.20
240-270 days	8.20

‡* Bankers' Acceptances	
Dec.	8.65%
Jan.	8.65
Feb.	8.65
Mar.	8.70
Apr.	8.82
May	8.85

‡ Industrial Paper—Prime	
30- 89 days	8.55%
90-120 days	8.30

† Federal Funds Effective Rate	8.95%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'84	$ 3,695	$ 3,645	$ 3,347
Gross National Product (1972 Dollars)*	3rd Q'84	$ 1,647	$ 1,639	$ 1,550
Percent Change, Annual Rate	3rd Q'84	1.9	7.1	6.8
Change in Consumer Prices*	Oct '84	4.8%	4.8%	4.8%
Change in Producer Prices*	Oct '84	− 2.4%	− 2.4%	2.4%
Civilian Employment (Thousands of Persons)†	Oct '84	105,586	105,239	101,970
Unemployment as % of Civilian Labor Force†	Oct '84	7.4%	7.4%	8.8%
Personal Income*	Oct '84	$ 3,086	$ 3,068	$ 2,815
Leading Indicators Composite Index (1967=100)†	Oct '84n	163.8	165.0r	162.4
Industrial Production Index (1967=100) †	Oct '84	165.2	165.2	155.0
Net Change in Consumer Installment Credit †	Sep '84	$ 4.28	$ 6.00	$ 2.55
U.S. Merchandise Trade Balance †	Oct '84n	−$ 9.18	−$ 12.65	−$ 8.43
Plant and Equipment Expenditures*	4th Q'84	$318.33(a)	$316.22(a)	$283.96
Private Housing Starts (Thousands of Units)*	Oct '84	1,515	1,679	1,672
New Construction Expenditures*	Sep '84	$ 315.3	$ 311.9	$ 281.7
Total Business Inventories †	Sep '84	$ 559.8	$ 556.5	$ 507.0
Total Business Sales †	Sep '84	$ 408.9	$ 411.2	$ 379.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

consumption by encouraging more borrowing for big-ticket consumer and business goods.

. . . And Improving Conditions Abroad

U.S. real exports are also likely to grow faster soon because of an improving global economic environment. Lower foreign interest rates, the end of the metalworkers' strike in Germany and the de facto lifting of the still ongoing coalminers' strike in the U.K., all suggest better times ahead.

In step with U.S. trends, three-month Eurocurrency interest rates in the U.K. have fallen by 2½ percentage points since August, while in Germany and in Japan they have remained steady at low levels—around six percent. Now, expectations are for a four percent rise in Germany's real economic growth for 1985, in contrast with an estimated 2.5 percent gain in 1984. Likewise, more than three percent real growth in the U.K. next year is now possible versus two percent this year. Japan, meanwhile, is set to repeat this year's real growth rate of five percent in 1985. Economic expansion in the developing countries, and, therefore, U.S. export growth to these countries, should also benefit from all these developments. Finally, the continuing decline of world energy prices, led by softer oil prices, should provide a further lift—U.S. and worldwide—since it would be the equivalent of a good-sized tax cut. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (11/14/84)	153,289	– 237	+14,856
New York City (11/21/84)	34,475	+ 618	+ 2,867
Commercial Paper (11/21/84)	238,047	+ 4,079	+55,311

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/14/84)	248,574	– 293	+29,941
New York City (11/21/84)	63,794	– 496	+ 6,294

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/14/84)	641,005	+ 401	+98,701
New York City (11/21/84)	144,642	+ 549	+22,686

Financial Markets

	Friday 11/30/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.75%	– .05	– .50
180-Day Bills†	9.15	–0–	– .55
Longest Bills†	9.70	+ .15	– .30
Recent Issues:			
11^5/8s 10/31/86	10.40	–0–	
11^3/8s 9/30/88	11.00	+ .05	
11^5/8s 11/15/94	11.50	+ .10	
12^1/2s 8/15/14	11.55	+ .10	
Municipals:			
Bond Buyer–20 Bond Index* (11/29/84)	10.04%	– .27	+ .22
Blue List Total ($ Million)	$1,650	–$ 152	+ $ 50
30-Day Visible Supply ($ Million)	$3,003	+$ 685	– $1,205
Total	$4,653	+$ 533	– $1,155
Corporates:			
Moody's Aa Composite (11/29/84)	12.52%	– .12	– .06
30-Day Visible Supply ($ Million)	$1,500	–$2,300	+ $ 370
Stocks:			
Dow-Jones Averages:			
Industrials	1,188.94	– 31.36	– 76.30
Transportation	522.25	– 10.74	– 83.04
Utilities	145.62	– .10	+ 10.75
65 Stocks	474.20	– 9.91	– 33.39
Standard and Poor's 500 Stocks	163.58	– 3.34	– 1.86
N.Y.S.E. Composite Index	94.30	– 1.80	– 1.36
N.Y.S.E. Avg. Daily Vol. for Week (000's)	82,514	+ 5,036	– 17,566

* 46% Taxable equivalent 18.59%.

† Bond equivalent.

International Rates

	Friday 11/30/84	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	8.75%	9.00%
1 month	8.81	9.19
3 month	8.94	9.50
6 month	9.75	9.81
1 year	10.06	10.44
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.65%	11.80%
Long Term (7 to 15 yrs.)	11.69	11.90

FOREIGN EXCHANGE SPOT RATES

New York Opening (11/30/84)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01606	62.28
Canada	.7560	1.3228
Denmark	.08981	11.1350
France	.1054	9.4875
Germany	.3229	3.0968
Italy	.0005218	1916.50
Japan	.004048	247.03
Mexico	.004739	211.00
Netherlands	.2863	3.4933
Switzerland	.3929	2.5453
U.K.	1.2000	.8333

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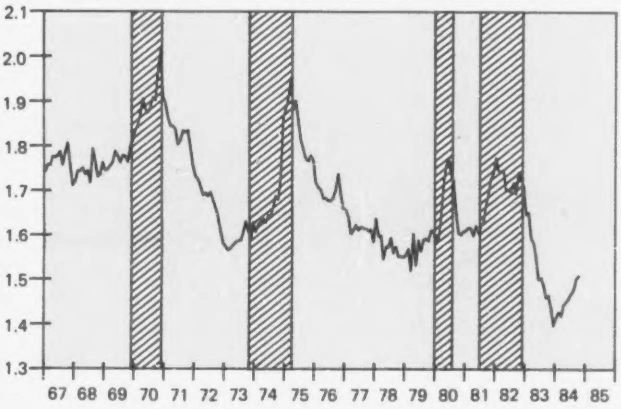
The Manufacturers Hanover Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, DECEMBER 10, 1984
VOLUME XXI, NUMBER 44

The Increase In Inventories . . .

Inventory investment played an important role in the rapid growth of the economy in the first half of 1984. The impressive rate of business inventory accumulation in this period was in response to strong final demand. In the third quarter, however, not only did real final demand decline, but a substantial increase in imports occurred, producing an unintended rise of $30 billion in constant-dollar inventories. This, in turn, brought out concerns that in the absence of a revival in final demand anytime soon, businesses' attempts to fine-tune inventories could lead to a full-scale inventory correction and slower economic growth. Indeed, if the rate of stockpiling in the third quarter had remained at the same level as in the second quarter, inflation-adjusted gross national product would have fallen at a seasonally adjusted 0.5 percent annual rate.

CHART I
CURRENT-DOLLAR INVENTORY-SALES RATIO, MANUFACTURING

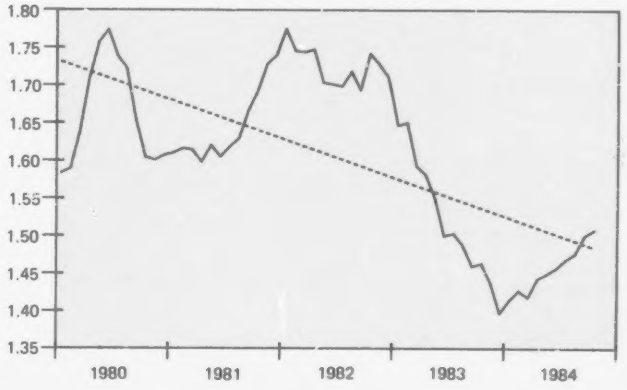


Looking at the important manufacturing sector, it does not appear that a drastic inventory adjustment is under way. There is little evidence that significant imbalances have developed and the need to adjust inventory levels downward in line with lower sales will be minimal. This is because manufacturers have promptly responded to excessive stockpiling by cutting new orders and, in turn, production schedules. Industrial production declined 0.5 percent in September and remained flat in October.

. . . May Signal A Slowdown . . .

The inventory-to-sales ratio in the manufacturing sector gives little evidence of significant overhang. Despite the increases in the last seven months, the current-dollar inventory-sales ratio is still very low by historical standards (see Chart I). Indeed, this traditional way of looking at inventory-to-sales ratios might give the impression that further accumulation could take place just to bring inventories up to a normal alignment with sales.

CHART II
CURRENT-DOLLAR INVENTORY-SALES RATIO, MANUFACTURING (LINE) VS. TREND LINE (DOT)



However, historical patterns may no longer be accurate in measuring the inventory-to-sales ratio and this ratio should be examined in a more recent time frame. The ratio has turned down in the past few years as a result of improved inventory management techniques made possible by the growing use of computers. In addition, high interest rates, low rates of inflation and the need to cut costs to compete with foreign manufacturers have placed great pressure on managers to keep inventories at minimum working levels. This was evident in the first year of the current expansion when businesses kept a very tight rein on inventories. When it became apparent that the recovery was much stronger than expected, businesses began to build inventories to avoid losing sales. As Chart II indicates, the current-dollar inventory-to-sales ratio would appear to be very close to where it should be, given the downward trend of this ratio in recent years.

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. . . But Fears May Be Unfounded

Another indication that inventories are not excessive comes from the nation's purchasing managers—the majority of whom report that inventory buildup not only has halted, but inventory liquidation appeared to be taking place.

The extent to which business feels comfortable with the level of inventories will determine the near-term course of the economy. Automakers, for example, are concerned about having enough cars in stock to meet demand. New-car supplies for most of this year have run about 15 percent below normal levels. In November, inventories of cars stood at just a 58-day supply, whereas a 65-day supply is considered normal for this time of year. The auto industry has set a heavy production schedule for December and the first quarter of 1985 to build up inventories and meet sales. Domestic automakers plan to produce 565,000 cars this month which would bring the total October-December output to the highest level for any fourth quarter in six years.

Furthermore, the steep decline in interest rates over the past three months has set the stage for an increase in spending, which should decrease inventories, particularly in such interest-sensitive sectors as housing and durable goods. In addition, the recent surge in the money supply may be a sign that

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 12/5/84	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	164.939	+ .824	+ 5.890
Loans to Depository Inst.	4.352	+ .205	+ 3.915
Float	.524	– .632	– .819
Total Reserve Bank Credit	180.924	+ .281	+12.087
Treasury Deposits with Federal Reserve Banks	2.580	– .398	– .557
Currency in Circulation	179.713	– .134	+11.206
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	120.436	+ 1.692	+ 8.556
	12/5/84		
Member Bank Reserves:			
Total Reserves Held	38.935	+ .073	+ 3.636
Excess (Deficiency)	.949	+ .317	+ .444
Net Free Reserves	.472	+ .415	+ .318
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M1 (11/26/84)	554.2	+ 1.7‡	+ 5.0‡
M2 (October '84)	2,317.2	+ 6.2	+ 6.9
M3 (October '84)	2,916.2	+ 7.8	+ 9.7
Domestic Nonfinancial Debt (3rd Q'84)	5,760.0	+ 11.7	+ 12.9

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 12/7/84	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	8.40%	8.60%	8.85%
* Federal Agencies	8.50	9.00	9.60
* Project Notes—Taxfree (46% Taxable Equivalent)	9.81	9.91	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.90	9.15	9.65

‡ Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	8.55%	Jan.	8.75%
15- 29 days	8.60	Feb.	8.75
30- 59 days	8.65	Mar.	8.80
60- 89 days	8.55	Apr.	8.90
90-179 days	8.30	May	8.95
180-239 days	8.20	Jun.	8.95
240-270 days	8.20		

‡ Industrial Paper—Prime			
30- 89 days	8.63%	† Federal Funds	
90-120 days	8.40	Effective Rate	8.65%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'84	$ 3,695	$ 3,645	$ 3,347
Gross National Product (1972 Dollars)*	3rd Q'84	$ 1,647	$ 1,639	$ 1,550
Percent Change, Annual Rate	3rd Q'84	1.9	7.1	6.8
Change in Consumer Prices*	Oct '84	4.8%	4.8%	4.8%
Change in Producer Prices*	Oct '84	– 2.4%	– 2.4%	2.4%
Civilian Employment (Thousands of Persons)†	Nov '84n	105,872	105,586	102,606
Unemployment as % of Civilian Labor Force†	Nov '84n	7.2%	7.4%	8.4%
Personal Income*	Oct '84	$ 3,086	$ 3,068	$ 2,815
Leading Indicators Composite Index (1967=100)†	Oct '84	163.8	165.0	162.4
Industrial Production Index (1967=100) †	Oct '84	165.2	165.2	155.0
Net Change in Consumer Installment Credit †	Sep '84	$ 4.28	$ 6.00	$ 2.55
U.S. Merchandise Trade Balance †	Oct '84	–$ 9.18	–$ 12.65	–$ 8.43
Plant and Equipment Expenditures*	4th Q'84	$318.33(a)	$316.22(a)	$283.96
Private Housing Starts (Thousands of Units)*	Oct '84	1,515	1,679	1,672
New Construction Expenditures*	Oct '84n	$ 315.8	$ 310.5r	$ 267.9
Total Business Inventories †	Sep '84	$ 559.8	$ 556.5	$ 507.0
Total Business Sales †	Sep '84	$ 408.9	$ 411.2	$ 379.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

business activity is picking up from the pause of the last few months.

The housing sector, another main engine of economic growth, is already responding to the easing in mortgage rates. New single-family home sales jumped by more than 20 percent in the latest two months. This sharply reduced the supply of new unsold single-family homes from 7.1 months in August to 6.3 in October.

Consumers are in a good position to spend. Incomes continue to rise because overall employment has not been seriously affected by the slowdown in economic growth. The savings rate is at its highest in more than two years, the rate of inflation remains subdued, and the ratio of consumer installment credit to disposable personal income indicates that there is still room for further growth in consumer credit. Not surprisingly, consumer confidence improved again in November to the highest level in five months. Retail sales also appear to be gaining momentum. The weather turned cooler in many parts of the country, providing a boost to sales of winter merchandise that languished on store shelves earlier this fall. Christmas shopping got off to a strong start Thanksgiving weekend, bolstering retailers' hopes that sales for the entire Holiday season will advance ahead of last year's impressive results.

Short Term Paper Outstanding
(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (11/21/84)	159,054	+ 774	+12,896
New York City (11/28/84)	33,947	− 528	+ 2,401
Commercial Paper (11/28/84)	238,691	+ 576	+56,216

Bank Loans
(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/21/84)	248,643	+ 88	+30,396
New York City (11/28/84)	63,435	− 359	+ 5,791

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/21/84)	641,118	+ 36	+99,618
New York City (11/28/84)	142,392	− 2,370	+20,416

Financial Markets

	Friday 12/7/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.70%	− .05	− .65
180-Day Bills†	9.10	− .05	− .65
Longest Bills†	9.60	− .10	− .50
Recent Issues:			
$11^{5}/_{8}$s 10/31/86	10.50	+ .10	
$11^{3}/_{8}$s 9/30/88	11.15	+ .15	
$11^{5}/_{8}$s 11/15/94	11.65	+ .15	
$11^{3}/_{4}$s 11/15/14	11.65	+ .10	
Municipals:			
Bond Buyer–20 Bond Index* (12/6/84)	9.95%	− .09	+ .04
Blue List Total ($ Million)	$1,885	+$ 235	+ $ 123
30-Day Visible Supply ($ Million)	$1,712	−$1,291	− $1,230
Total	$3,597	−$1,056	− $1,107
Corporates:			
Moody's Aa Composite (12/6/84)	12.55%	+ .03	− .20
30-Day Visible Supply ($ Million)	$1,480	−$ 20	− $ 350
Stocks:			
Dow-Jones Averages:			
Industrials	1,163.21	− 25.73	− 96.85
Transportation	522.70	+ .45	− 82.21
Utilities	144.65	− .97	+ 10.74
65 Stocks	467.78	− 6.42	− 38.06
Standard and Poor's 500 Stocks	162.26	− 1.32	− 2.83
N.Y.S.E. Composite Index	93.52	− .78	− 1.87
N.Y.S.E. Avg. Daily Vol. for Week (000's)	88,776	+ 6,262	− 7,008

* 46% Taxable equivalent 18.43%.

† Bond equivalent.

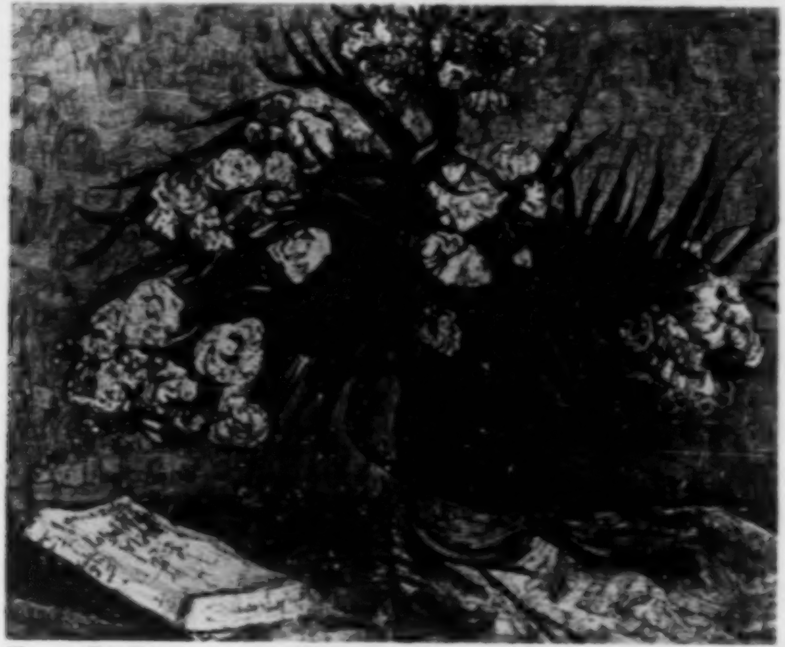
International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 12/7/84	Week Ago
Overnight	8.50%	8.75%
1 month	9.00	8.81
3 month	9.25	8.94
6 month	9.63	9.75
1 year	10.25	10.06
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.75%	11.65%
Long Term (7 to 15 yrs.)	11.85	11.69

FOREIGN EXCHANGE SPOT RATES

New York Opening (12/7/84)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01617	61.85
Canada	.7577	1.3198
Denmark	.09091	11.0000
France	.1063	9.4050
Germany	.3256	3.0710
Italy	.0005270	1897.50
Japan	.004049	246.98
Mexico	.004608	217.00
Netherlands	.2884	3.4670
Switzerland	.3946	2.5345
U.K.	1.2050	.8299

VAN GOGH



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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, DECEMBER 17, 1984
VOLUME XXI, NUMBER 45

Some Seasonally Adjusted Cheer . . .

Christmas sales appear to have gotten off to a strong start despite retailers' fears. According to the Commerce Department's preliminary estimates, November's retail sales rose a seasonally adjusted 1.8 percent compared with October. What is more, October's earlier reported decline was revised upward to a 0.1 percent increase compared with the previous month. November's bulge wasn't due to the post-strike rebound in auto sales, either. New car sales last month advanced only one percent; excluding autos, total retail sales rose a hefty two percent—most of which was an increase in real volume.

Given these strong numbers, what accounts for the gloom and doom that appears to have settled over the retail scene? Merchants have been extremely nervous about this Holiday shopping season, witness the unusual spate of off-price sales across the board. The answer would seem to lie in retailers' expectations. They tend to be formed six to nine months earlier, for this is when orders must be placed with the manufacturers. For toys in particular, the lead time is almost one year. And at the beginning of 1984 when most orders for today's merchandise were put in, the economy was much stronger than it has been since midsummer.

. . . At The Nation's Stores . . .

In retrospect, the strong rise in consumer spending should not have come as any great surprise. For one thing, employment reached a record level in November, and the unemployment rate—at seven percent of the labor force—retreated to one of the lowest levels in nearly five years. Consumer buying power has been rising at a good clip and consumers' spirits are soaring. Finally, the unusually strong promotional environment has been conducive to stepped-up buying; prices of apparel, shoes, fashion accessories and many home appliances have barely budged over the past year.

Retail sales are usually determined by shoppers' outlooks on the economy in general and employment and income prospects in particular. And consumer surveys show that there is general satisfaction with the economy. The Conference Board's consumer confidence index is now back to where it was during the second quarter of this year, when the pace of business was advancing at a 7.1 percent seasonally adjusted annual rate. Not only do more respondents view their present situation as improving, their expectations for the near term are rosy as well. More than 29 percent of those surveyed feel that business conditions are good now—the highest proportion in nearly six years—and increasing numbers expect employment opportunities to improve further and their incomes to rise.

. . . Reflects Shoppers' Confidence . . .

The jump in the consumer confidence index was undoubtedly a reflection of last month's improvement in the job markets. Nearly 300,000 people found jobs, which resulted in a record 107.6 million people working. In fact, since the end of the 1981-82 recession, payrolls have expanded by nearly seven million workers.

Although manufacturing employment rose only modestly last month, it is encouraging to note that the average workweek in this sector rose by 0.3 percent. This, in turn, led to November's pickup in industrial production of 0.4 percent. Overall, the index of aggregate weekly hours worked by all production workers rose by 0.7 percent in November, compared with October. When that is combined with last month's increase in hourly earnings, the resulting 0.9 percent jump in weekly earnings surely gave November's wages and salaries a good-sized boost.

Even more important, disposable incomes adjusted for inflation have been expanding at a fast pace. Although the year-over-year advances have shrunk a bit to 6.7 percent from the first half's 7.3 percent, the third quarter's gain remains one of the highest since the early 1970s. And since prices of food, apparel and energy have risen more slowly than most components of the consumer price index, people's discretionary incomes have probably risen even faster.

One of the most important recent contributors to consumers' rising buying power has been

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interest income. Currently, personal income from interest is nearly 20 percent higher than a year ago—no doubt the only silver lining in the high interest rate cloud. In October, 15 percent of people's incomes was derived from interest receipts, up from 14.7 percent in the third quarter and an average of 13.7 percent in 1983. Perhaps because of this boost to their incomes, consumers may be less reluctant to increase purchases on credit. The ratio of consumer installment debt to disposable income has risen to 17.0 percent, and is fast approaching its 1979 peak. Meanwhile, the aggregate savings rate has bounced from the most recent low of 5.7 percent reached last May, to 6.4 percent in October.

. . . And Improved Financial Prospects

Retailers report that most purchases are not extravagant, but rather reflect a "back-to-basics" mood. Traditional gifts appear to be making up the bulk of this season's purchases. Items selling well include toys, adult board games, jewelry, fragrances and lingerie. Sales of men's and women's fashion apparel and accessories rose by nearly four percent in November, compared with October. Household appliances are still selling at near-record levels, with microwave ovens being a particularly popular Christmas gift; sales are 60 percent higher so far this year than a year ago.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 12/12/84	$ Change Since	
		Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	167.140	+ 2.201	+ 7.823
Loans to Depository Inst.	3.301	– 1.052	+ 2.672
Float	1.789	+ 1.276	+ .206
Total Reserve Bank Credit	183.663	+ 2.741	+13.976
Treasury Deposits with Federal Reserve Banks	3.331	+ .745	+ .065
Currency in Circulation	180.790	+ 1.077	+11.172
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	118.850	– 1.586	+ 6.970
	12/5/84		
Member Bank Reserves:			
Total Reserves Held	38.954	+ .116	+ 3.655
Excess (Deficiency)	.899	+ .297	+ .394
Net Free Reserves	.422	+ .395	+ .268
		% Change Since	
Monetary Aggregates †		Three Months Ago*	Year Ago
M1 (12/3/84)	547.1	+ 2.2‡	+ 4.8‡
M2 (November '84)	2,346.2	+ 9.6	+ 7.5
M3 (November '84)	2,955.0	+ 11.5	+ 9.6
Domestic Nonfinancial Debt (3rd Q'84)	5,760.0	+ 11.7	+ 12.9

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 12/14/84	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	8.00%	8.20%	8.50%
* Federal Agencies	8.58	8.89	9.71
* Project Notes—Taxfree (46% Taxable Equivalent)	9.81	9.63	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.70	9.00	9.65

‡ Finance Company Paper—Prime	
5- 14 days	8.25%
15- 29 days	8.38
30- 59 days	8.60
60- 89 days	8.55
90-179 days	8.40
180-239 days	8.40
240-270 days	8.40

‡* Bankers' Acceptances	
Jan.	8.62%
Feb.	8.62
Mar.	8.62
Apr.	8.73
May	8.75
Jun.	8.73

‡ Industrial Paper—Prime	
30- 89 days	8.58%
90-120 days	8.40

†Federal Funds Effective Rate	8.22%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'84	$ 3,695	$ 3,645	$ 3,347
Gross National Product (1972 Dollars)*	3rd Q'84	$ 1,647	$ 1,639	$ 1,550
Percent Change, Annual Rate	3rd Q'84	1.9	7.1	6.8
Change in Consumer Prices*	Oct '84	4.8%	4.8%	4.8%
Change in Producer Prices*	Nov '84n	6.0%	– 2.4%	– 1.2%
Civilian Employment (Thousands of Persons) †	Nov '84	105,872	105,586	102,606
Unemployment as % of Civilian Labor Force †	Nov '84	7.2%	7.4%	8.4%
Personal Income*	Oct '84	$ 3,086	$ 3,068	$ 2,815
Leading Indicators Composite Index (1967=100) †	Oct '84	163.8	165.0	162.4
Industrial Production Index (1967=100) †	Nov '84n	165.0	164.3r	155.3
Net Change in Consumer Installment Credit †	Oct '84n	$ 6.28	$ 4.28	$ 5.09
U.S. Merchandise Trade Balance †	Oct '84	–$ 9.18	–$ 12.65	–$ 8.43
Plant and Equipment Expenditures*	4th Q'84	$318.33(a)	$316.22(a)	$283.96
Private Housing Starts (Thousands of Units)*	Oct '84	1,515	1,679	1,672
New Construction Expenditures*	Oct '84	$ 315.8	$ 310.5	$ 267.9
Total Business Inventories †	Oct '84n	$ 565.3	$ 560.6r	$ 509.2
Total Business Sales †	Oct '84n	$ 410.8	$ 410.5r	$ 382.5

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

Color television purchases are running 15 percent ahead of last year, with the expensive projection models up nearly one third. Sales of video cassette recorders in November were running nearly double the rates of a year ago, with year-to-date sales surpassing last year's by more than 80 percent. The Electronics Industries Association expects purchases of pre-recorded movie tapes to be up some 80 percent this year. Video cameras are selling 20 percent faster than in 1983.

But even if this surge in consumer spending continues through December, retailers' profits may well be disappointing, since many discounted substantially from list prices. Nevertheless, any improvement in final demand should give merchants the confidence to expand inventories, which will ultimately translate into stepped-up activity in the nation's factories. Some of this rebound, however, will flow overseas, since an increasing chunk of people's spending is going for imports. Because of the strong dollar which makes foreign-made goods less expensive, imports of consumer goods so far this year have increased by 40 percent compared with the same period of 1983. They currently represent ten percent of consumers' purchases—up from less than eight percent a year ago. H

Short Term Paper Outstanding
(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (11/28/84)	158,225	– 794	+12,334
New York City (12/5/84)	34,259	+ 311	+ 3,102
Commercial Paper (12/5/84)	236,927	– 1,143	+54,924

Bank Loans
(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/28/84)	247,762	– 788	+28,407
New York City (12/5/84)	64,160	+ 704	+ 5,908

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/28/84)	637,788	– 3,610	+94,144
New York City (12/5/84)	146,991	+ 4,306	+24,176

Financial Markets

	Friday 12/14/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.54%	– .16	– .91
180-Day Bills†	8.86	– .24	– .99
Longest Bills†	9.41	– .19	– .64
Recent Issues:			
$10^3/_8$s 11/30/86	10.32	– .18	
$11^3/_8$s 9/30/88	11.01	– .14	
$11^5/_8$s 11/15/94	11.63	– .02	
$11^3/_4$s 11/15/14	11.63	– .02	
Municipals:			
Bond Buyer–20 Bond Index* (12/13/84)	10.00%	+ .05	– .04
Blue List Total ($ Million)	$2,630	+$ 745	+ $876
30-Day Visible Supply ($ Million)	$2,154	+$ 442	– $715
Total	$4,784	+$1,187	+ $161
Corporates:			
Moody's Aa Composite (12/13/84)	12.59%	+ .04	– .26
30-Day Visible Supply ($ Million)	$1,710	+$ 230	– $ 10
Stocks:			
Dow-Jones Averages:			
Industrials	1,175.91	+ 12.74	– 66.26
Transportation	534.99	+ 12.29	– 55.16
Utilities	144.59	– .06	+ 13.57
65 Stocks	473.60	+ 5.82	– 23.04
Standard and Poor's 500 Stocks	162.69	+ .43	+ .30
N.Y.S.E. Composite Index	93.92	+ .40	+ .06
N.Y.S.E. Avg. Daily Vol. for Week (000's)	83,264	– 5,512	– 1,926

* 46% Taxable equivalent 18.52%.

† Bond equivalent.

International Rates

	Friday 12/14/84	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	8.25%	8.50%
1 month	8.81	9.00
3 month	9.00	9.25
6 month	9.50	9.63
1 year	10.19	10.25
EUROCOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.75%	11.75%
Long Term (7 to 15 yrs.)	11.85	11.85

FOREIGN EXCHANGE SPOT RATES

New York Opening (12/14/84)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01605	62.30
Canada	.7567	1.3215
Denmark	.09038	11.0650
France	.1052	9.5075
Germany	.3222	3.1035
Italy	.0005230	1912.00
Japan	.004034	247.88
Mexico	.004630	216.00
Netherlands	.2855	3.5025
Switzerland	.3909	2.5585
U.K.	1.1895	.8407

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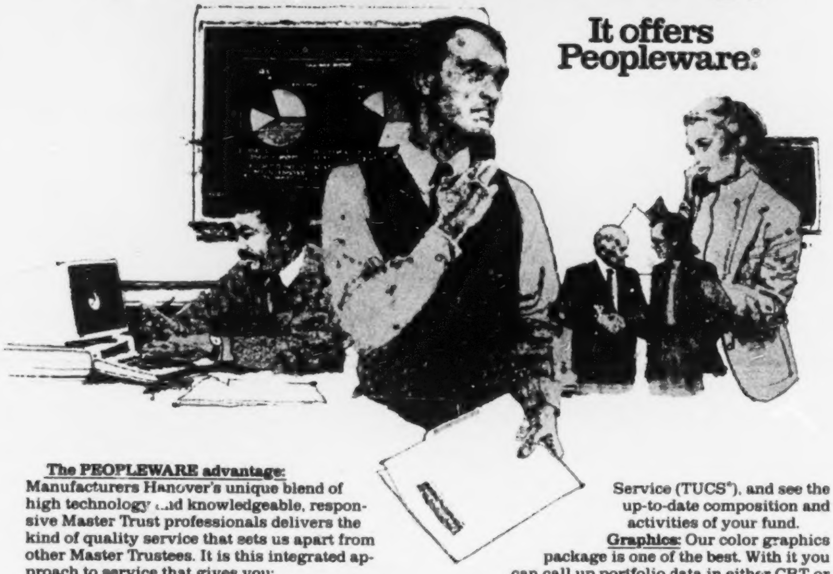

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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

DECEMBER 24, 1984/DECEMBER 31, 1984
VOLUME XXI, NUMBER 46

Season's Greetings
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HAPPY
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Fröhliches Neues Jahr

Bonne An

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 12/19/84	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	166.908	− .232	+ 4.493
Loans to Depository Inst.	3.161	− .140	+ 2.107
Float	1.287	− .502	− .368
Total Reserve Bank Credit	182.664	− .999	+ 9.238
Treasury Deposits with Federal Reserve Banks	3.468	+ .137	− .640
Currency in Circulation	181.392	+ .602	+11.183
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	121.161	+ 2.311	+ 7.707
	12/19/84		
Member Bank Reserves:			
Total Reserves Held	39.483	+ .536	+ 2.917
Excess (Deficiency)	.389	− .501	− .256
Net Borrowed Reserves	.161	+ .574	− .152

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (12/10/84)	551.0	+ 2.0‡	+ 5.0‡
M2 (November '84)	2,346.4	+ 9.7	+ 7.5
M3 (November '84)	2,955.0	+ 11.3	+ 9.9
Domestic Nonfinancial Debt (3rd Q'84)	5,760.0	+ 11.7	+ 12.9

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 12/21/84	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.75%	8.00%	8.40%
* Federal Agencies	8.15	8.75	9.25
* Project Notes—Taxfree (46% Taxable Equivalent)	9.72	9.72	10.19
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.20	8.50	8.58

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	7.80%	Jan.	8.25%
15- 29 days	7.95	Feb.	8.25
30- 59 days	8.10	Mar.	8.25
60- 89 days	8.15	Apr.	8.30
90-179 days	8.20	May	8.40
180-239 days	8.30	Jun.	8.40
240-270 days	8.40		

‡Industrial Paper—Prime		†Federal Funds	
30- 89 days	7.90%		
90-120 days	7.63	Effective Rate	8.00%

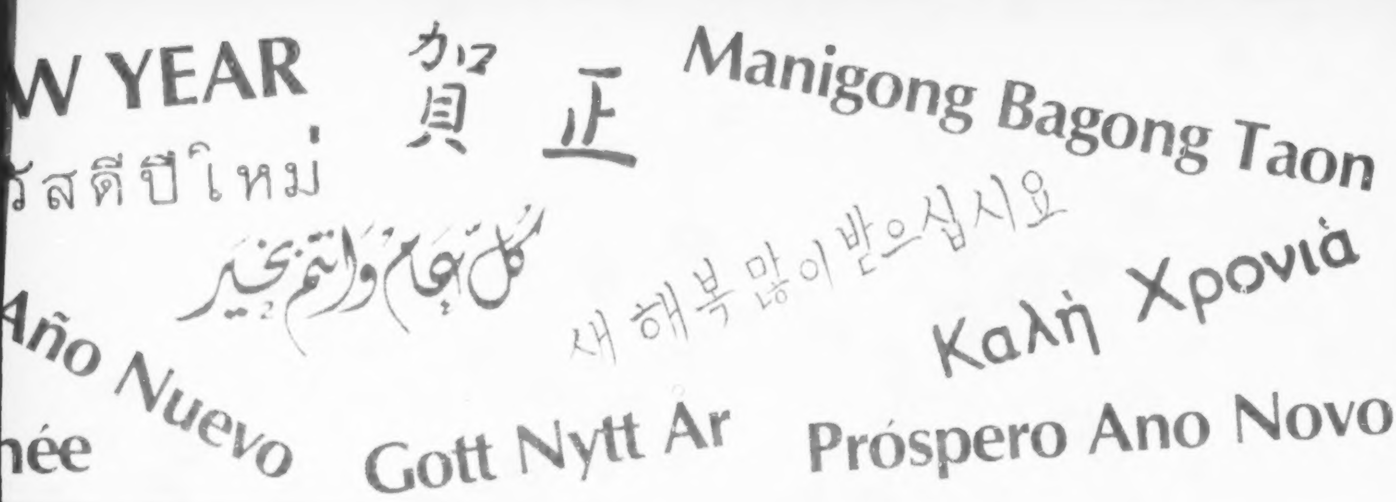
‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'84	$ 3,695r	$ 3,645	$ 3,347
Gross National Product (1972 Dollars)*	3rd Q'84	$ 1,645r	$ 1,639	$ 1,550
Percent Change, Annual Rate	3rd Q'84	1.6r	7.1	6.8
Change in Consumer Prices*	Nov '84n	2.4%	4.8%	4.8%
Change in Producer Prices*	Nov '84	6.0%	− 2.4%	− 1.2%
Civilian Employment (Thousands of Persons)†	Nov '84	105,872	105,586	102,606
Unemployment as % of Civilian Labor Force†	Nov '84	7.2%	7.4%	8.4%
Personal Income*	Nov '84n	$ 3,100	$ 3,079r	$ 2,834
Leading Indicators Composite Index (1967=100)†	Oct '84	163.8	165.0	162.4
Industrial Production Index (1967=100) †	Nov '84	165.0	164.3	155.3
Net Change in Consumer Installment Credit †	Oct '84	$ 6.28	$ 4.28	$ 5.09
U.S. Merchandise Trade Balance †	Oct '84	−$ 9.18	−$ 12.65	−$ 8.43
Plant and Equipment Expenditures*	1st Q'85n	$337.85(a)	$321.40r(a)	$293.15
Private Housing Starts (Thousands of Units)*	Nov '84n	1,528	1,538r	1,730
New Construction Expenditures*	Oct '84	$ 315.8	$ 310.5	$ 267.9
Total Business Inventories †	Oct '84	$ 565.3	$ 560.6	$ 509.2
Total Business Sales †	Oct '84	$ 410.8	$ 410.5	$ 382.5

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.



Short Term Paper Outstanding
(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (12/5/84)	158,479	+ 257	+13,093
New York City (12/12/84)	34,227	− 118	+ 2,930
Commercial Paper (12/12/84)	238,439	+ 1,504	+54,671

Bank Loans
(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/5/84)	248,913	+ 1,459	+ 28,579
New York City (12/12/84)	63,334	− 699	+ 5,221

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/5/84)	646,998	+ 9,361	+ 100,834
New York City (12/12/84)	144,397	− 2,601	+ 21,408

Financial Markets

	Friday 12/21/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.00%	− .54	− 1.30
180-Day Bills†	8.45	− .41	− 1.30
Longest Bills†	9.05	− .36	− 1.05
Recent Issues:			
$9^{7}/_{8}$s 12/31/86 (When Issued)	9.90	NA	
$11^{3}/_{8}$s 9/30/88	10.65	− .36	
$11^{5}/_{8}$s 11/15/94	11.30	− .33	
$11^{3}/_{4}$s 11/15/14	11.35	− .28	
Municipals:			
Bond Buyer—20 Bond Index* (12/20/84)	9.93%	− .07	+ .01
Blue List Total ($ Million)	$2,110	−$ 520	+ $ 574
30-Day Visible Supply ($ Million)	$1,095	−$1,059	− $1,074
Total	$3,205	−$1,579	− $ 500
Corporates:			
Moody's Aa Composite (12/20/84)	12.43%	− .16	− .41
30-Day Visible Supply ($ Million)	$ 500	−$1,210	− $1,395
Stocks:			
Dow-Jones Averages:			
Industrials	1,198.98	+ 23.07	− 51.53
Transportation	550.38	+ 15.39	− 36.88
Utilities	146.80	+ 2.21	+ 16.16
65 Stocks	483.72	+ 10.12	− 13.92
Standard and Poor's 500 Stocks	165.51	+ 2.82	+ 2.29
N.Y.S.E. Composite Index	95.56	+ 1.64	+ 1.39
N.Y.S.E. Avg. Daily Vol. for Week (000's)	118,696	+35,432	+ 31,454

* 46% Taxable equivalent 18.39%.

† Bond equivalent.

International Rates

	Friday 12/21/84	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	8.06%	8.25%
1 month	8.31	8.81
3 month	8.63	9.00
6 month	9.19	9.50
1 year	9.88	10.19
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.65%	11.75%
Long Term (7 to 15 yrs.)	11.80	11.85

FOREIGN EXCHANGE SPOT RATES

New York Opening (12/21/84)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.01599	62.55
Canada	.7590	1.3176
Denmark	.08953	11.1700
France	.1048	9.5450
Germany	.3207	3.1180
Italy	.0005212	1918.50
Japan	.004032	248.00
Mexico	.004464	224.00
Netherlands	.2841	3.5205
Switzerland	.3899	2.5650
U.K.	1.1695	.8551

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The Manufacturers
Hanover
Financial
Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, JANUARY 7, 1985
VOLUME XXII, NUMBER 1

Strengthening Business Activity . . .

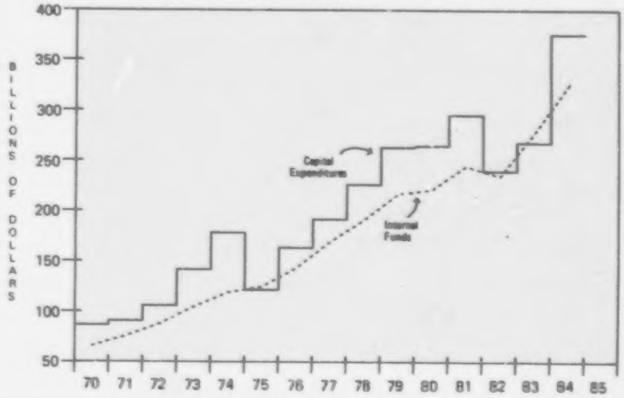
Despite the welcome interest rate relief provided by last summer's business pause, the New Year may well bring something quite different to the credit markets—higher interest rates. This is because with economic activity already picking up, household and business borrowings are sure to follow. Add to this the apparently insatiable credit appetite of the Federal government and the stage is set for a reversal of last year's slide in interest rates. But it is too soon to suggest that such a development will lead to this economy's ninth postwar recession. More than likely, it could produce another growth pause late this year or in 1986 unless a credible Federal deficit reduction program is put into place by the policymakers in Washington.

Perhaps the most important factor in this year's interest rate outlook is the rate of growth of private credit demands. Fueled by a strong upturn in household and business borrowings used to finance everything from new homes for consumers to new plant and equipment for business, private nonfinancial credit demands advanced at an almost 12 percent annual rate in the first half of last year, before slumping sharply in the third quarter as the pace of business slowed. In fact, with consumers scaling back both their mortgage and installment debt acquisitions, while businesses hurried to pare inventories, private sector borrowings actually declined by 16 percent quarter-over-quarter. What is more, when expressed as a percentage of gross national product, such borrowings fell to their lowest level in a year—also a period of falling, rather than rising interest rates. This development, together with stepped-up Federal Reserve efforts to restart both the economy and money supply growth, provided the one-two punch necessary to flatten interest rates last autumn.

. . . And Rising Credit Demands . . .

But as these factors begin to reverse themselves, prospects for interest rates remaining down begin to dim. Take, for example, the economy. With the index of leading economic indicators, retail sales, factory orders and construction spending all pointing toward faster, rather than slower growth, talk of a so-called "growth recession" has diminished. So, too, recent money supply and bank loan numbers are also beginning to signal gathering business strength, not additional weakness. After lying dormant all summer long, money supply growth, particularly that of M2, is accelerating, while bank loan demand has also begun to rebound in recent weeks.

NONFINANCIAL CORPORATIONS:
CAPITAL EXPENDITURES VS. INTERNAL FUNDS



In fact, bank loan demand could continue at a brisk clip not only in the near term, but throughout a sizable part of 1985. This is because as household spending for automobiles and housing perks up, the volume of auto loans and mortgage originations will do so as well—a portion of which will be booked by commercial banks. What is more, with capital spending slated to post another good-sized rise in 1985, while the growth of internal cash flow levels off from its early 1984 high-water mark (when it was running at an annual rate of nine percent of GNP), it appears a good bet that the business financing shortfall will widen throughout much of this year. Even now, business spending for inventories, plant and equipment is running some 19 percent ahead of internal cash generation, one of the widest margins ever recorded at this stage of the business cycle in the past (see chart above).

To be sure, new equity issuance will probably satisfy a larger chunk of business financing needs this year than in 1984—when retirements due to merger and acquisition activity far outran new offerings. However, the bulk of the widening corporate deficit will

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have to be met in the debt markets either here or abroad, a development which not only suggests rising levels of activity at the nation's commercial banks, the commercial paper market and the bond markets—but upward pressures on interest rates as well.

. . . Spell Higher Interest Rates

An upturn in private credit demands at this stage of the business cycle is hardly unusual. In fact, during the third year of those postwar recoveries which lasted that long, private credit demands surged by as much as 45 percent when compared with year-earlier levels. Not surprisingly, interest rates, too, have usually risen at this stage of the business cycle. But what is unusual this time around is that despite the ongoing business expansion and record numbers of people employed, Washington's red-ink total is widening again, suggesting that the abnormally large Federal borrowing requirement will become even larger.

For one thing, whereas the stronger pace of business activity in fiscal year 1984 did manage to shave $20 billion from fiscal 1983's record $195 billion red-ink total, slower growth so far in this fiscal year (which began October 1) has already begun to do the opposite. This, together with rising interest costs and accelerated defense spending, could widen Washing-

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 12/26/84	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	169.224	+ 2.316	+ 9.081
Loans to Depository Inst.	1.844	– 1.317	+ 1.091
Float	1.208	– .123	– 2.384
Total Reserve Bank Credit	184.020	+ 1.337	+11.054
Treasury Deposits with Federal Reserve Banks	3.669	+ .201	– .060
Currency in Circulation	182.790	+ 1.398	+11.183
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	121.322	+ .161	+ 8.476
	12/19/84		
Member Bank Reserves:			
Total Reserves Held	39.574	+ .621	+ 2.136
Excess (Deficiency)	.478	– .429	– .167
Net Borrowed Reserves	.072	+ .502	– .241

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (12/24/84)	557.6	+ 2.3‡	+ 5.1‡
M2 (November '84)	2,346.4	+ 9.7	+ 7.5
M3 (November '84)	2,955.1	+ 11.3	+ 9.9
Domestic Nonfinancial Debt (3rd Q'84)	5,760.0	+ 11.7	+ 12.9

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 1/4/85	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.50%	7.90%	8.10%
* Federal Agencies	8.01	8.65	9.46
* Project Notes—Taxfree (46% Taxable Equivalent)	9.72	10.00	10.37
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.23	8.55	9.45

‡Finance Company Paper—Prime	
5- 14 days	8.20%
15- 29 days	8.20
30- 59 days	8.20
60- 89 days	8.20
90-179 days	8.35
180-239 days	8.40
240-270 days	8.40

‡* Bankers' Acceptances	
Feb.	8.24%
Mar.	8.24
Apr.	8.30
May	8.35
Jun.	8.40
Jul.	8.35

‡Industrial Paper—Prime	
30- 89 days	8.10%
90-120 days	7.90

†Federal Funds Effective Rate 8.20%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'84	$ 3,695	$ 3,645	$ 3,347
Gross National Product (1972 Dollars)*	3rd Q'84	$ 1,645	$ 1,639	$ 1,550
Percent Change, Annual Rate	3rd Q'84	1.6	7.1	6.8
Change in Consumer Prices*	Nov '84	2.4%	4.8%	4.8%
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Private Housing Starts (Thousands of Units)*	Nov '84	1,528	1,538	1,730
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Total Business Inventories †	Oct '84	$ 565.3	$ 560.6	$ 509.2
Total Business Sales †	Oct '84	$ 410.8	$ 410.5	$ 382.5

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

ton's deficit this year by some $15 billion. What is more, beginning this year, indexation of income tax brackets will deprive the Federal government of inflation-driven receipts growth, possibly adding as much as $10 billion or so to the deficit. What all this adds up to is a potential deficit in the neighborhood of $200 billion. If such a deficit does materialize, Washington could absorb as much as 36 percent of all funds raised in the debt markets in 1985—just about three times the proportion usually raised at this stage of the business cycle in the past!

As a result, with household, business and Federal credit needs all poised to move higher due to both higher levels of economic activity and Washington's inability to curb its ongoing financial profligacy, only substantial Federal Reserve accommodation will be able to forestall the anticipated upturn in interest rates. And, with inflation rates still modest and money supply growth well behaved, this cannot be ruled out—at least for a while. But eventually, if the Fed were to accommodate fully competing business, household and Federal borrowings, it would run the risk of reigniting inflation expectations again, and, for this reason, it is an unlikely solution, long-term. That being the case, it is equally unlikely that higher interest rates can be avoided in the new year.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since	
		Week Ago	Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (12/19/84)	160,646	+ 1,569	+13,877
New York City (12/19/84)	34,553	+ 326	+ 3,470
Commercial Paper (12/19/84)	238,748	+ 309	+55,417

Bank Loans

(Millions of Dollars)

Weekly Reporting Large Commercial Banks	Commercial and Industrial Loans		
	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (12/19/84)	250,696	+ 2,206	+ 28,841
New York City (12/19/84)	63,856	+ 722	+ 5,888

	Total Loans and Leases Gross Adjusted		
	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (12/19/84)	654,678	+ 9,320	+ 104,170
New York City (12/19/84)	149,730	+ 5,246	+ 25,175

Financial Markets

	Friday 1/4/85	Change Since	
		Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.05%	+ .05	− 1.05
180-Day Bills†	8.60	+ .10	− .90
Longest Bills†	9.13	− .02	− .72
Recent Issues:			
$9^{7}/_{8}$s 12/31/86	10.02	+ .02	
$10^{5}/_{8}$s 12/31/88	10.86	+ .06	
$11^{5}/_{8}$s 11/15/94	11.60	+ .15	
$11^{3}/_{4}$s 11/15/14	11.60	+ .15	
Municipals:			
Bond Buyer—20 Bond Index* (1/3/85)	9.87%	− .04	+ .21
Blue List Total ($ Million)	$1,811	− $129	+ $705
30-Day Visible Supply ($ Million)	$2,108	+ $888	− $369
Total	$3,919	+ $759	+ $336
Corporates:			
Moody's Aa Composite (1/3/85)	12.55%	+ .06	− .22
30-Day Visible Supply ($ Million)	$ 350	− $150	− $670
Stocks:			
Dow-Jones Averages:			
Industrials	1,184.96	− 19.21	− 101.79
Transportation	553.03	− 3.88	− 58.76
Utilities	146.54	− .26	+ 11.71
65 Stocks	480.93	− 5.53	− 33.11
Standard and Poor's 500 Stocks	163.68	− 2.58	− 5.60
N.Y.S.E. Composite Index	94.60	− 1.29	− 3.11
N.Y.S.E. Avg. Daily Vol. for Week (000's)	78,610	+16,255	− 42,023

* 46% Taxable equivalent 18.28%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 1/4/85	Week Ago
Overnight	8.19%	8.63%
1 month	8.38	8.38
3 month	8.63	8.63
6 month	9.06	9.13
1 year	9.81	9.81
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.40%	11.40%
Long Term (7 to 15 yrs.)	11.70	11.60

FOREIGN EXCHANGE SPOT RATES New York Opening (1/4/85)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01581	63.27
Canada	.7579	1.3196
Denmark	.08842	11.3100
France	.1034	9.6755
Germany	.3162	3.1625
Italy	.0005141	1945.20
Japan	.003960	252.50
Mexico	.004435	225.50
Netherlands	.2803	3.5678
Switzerland	.3813	2.6223
U.K.	1.1522	.8679

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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, JANUARY 14, 1985

VOLUME XXII, NUMBER 2

Good News For Consumers . . .

Since nearly one-fifth of consumers' budgets is devoted to food and beverage purchases, it should be good news for shoppers that prices at the nation's grocery stores are expected to rise only modestly in 1985. Supplies of most foods should be plentiful: Crop output should rise about three percent on top of 1984's 26 percent increase, while red meat and poultry production will remain strong at about last year's level. But although this should ease the pressure on consumers' wallets, it will mean another rough year for the nation's farmers. Their cash incomes, adjusted for inflation, are expected to slip for the ninth time in the past 11 years, dropping to the lowest level in at least 40 years.

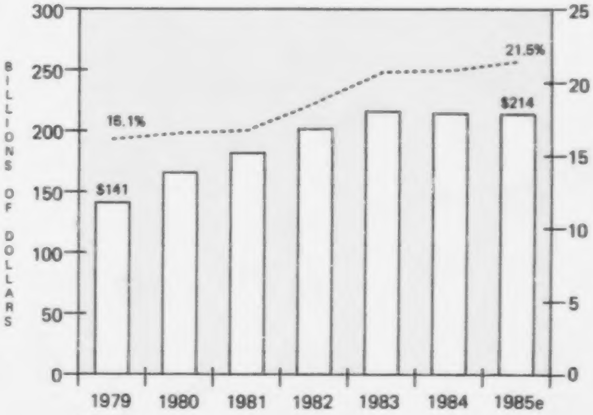
Retail food prices are expected to edge up this year, rising as little as two percent—one-half of 1984's nearly four percent increase. Holding prices down will be declining raw commodity prices at the farm level, which according to the United States Department of Agriculture (USDA), could fall as much as two percent, year-over-year. There may be bargains at the supermarket counter for some of the least processed foods such as poultry, eggs and fresh vegetables. For most foods, the rise in marketing costs will more than offset lower agricultural commodity prices—as can be seen from December's producer price index, which showed consumer foods rising by 0.5 percent. For example, cereal and bakery products' prices may rise as much as seven percent this year, despite sharply lower grain prices.

On average, only 26 cents of every dollar spent on food at grocery stores represents the farm value. The rest represents the marketing bill, which includes processing, packaging, transportation and distribution. The slower rise in business activity in 1985 compared with 1984 is likely to moderate demand for packaging and transportation, which posted the steepest price increases over the past year. Energy costs are expected to be held down by declining petroleum prices. However, labor costs—which account for nearly half the marketing costs may start inching up. Although emphasis on job security remains at the top of the list of labor's demands, unions may press some employers to restore concessions granted during the leaner years and maybe even to tack on a little bit more.

. . . But Not Such Good News . . .

The expected decline in agricultural prices does not bode well for farmers' already strained finances. Larger crop sales and higher livestock prices may lead to increased cash receipts, but expenses will probably rise at a faster clip. Government payments, which in 1983 and 1984 jumped primarily as a result of the Payment-in-Kind program, will be sharply reduced.

FARM SECTOR: TOTAL LIABILITIES (BAR) VS.
DEBT AS A % OF ASSETS (DOT) (AS OF JAN. 1)



(e) estimate
Source: U.S. Department of Agriculture

The prospects for agricultural exports, which represent one-third of total domestic production, are not encouraging to farmers, either. While the outlook for economic growth of most of the major importers of U.S. agricultural products—the European Economic Community, Japan and Latin America—is favorable, large crop supplies outside the United States and strong competition from foreign exports because of the high value of the dollar will continue to limit trade. For example, record production is expected outside the United States for wheat, coarse grains, rice, soybeans and cotton. Thus, net farm incomes are likely to fall dramatically from 1984's inventory-boosted level. Net cash incomes, which do not take inventory swings into account, and thus are a more immediate indicator of farmers' buying power, are expected to fall for the second year in a row.

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. . . For Farmers And . . .

What is more, the farm sector's balance sheet continues to deteriorate. The hardest hit have been those farmers who borrowed heavily in the late 1970s and made substantial investments when livestock and crop prices surged upward, boosting their income expectations and bidding up the price of land. But only a few years later, with bumper harvests in other countries and the worldwide economic recession, their expectations were shattered.

In response to reduced farm profitability in general, and increased bankruptcies in particular, the amount of land available for sale increased, while higher interest rates cut buyer demand. As a result, the per-acre value of U.S. farmland dropped for the fourth consecutive year in 1984. At the beginning of this year, the value of real estate, which represents three-quarters of farmers' total assets, sank to $740 billion from nearly $830 billion four years before. Total assets fell by an estimated nine percent during this time period.

At the same time, interest rates spiked upward, affecting farmers with short-term debt or variable-rate loans who were previously virtually insulated from fluctuations in market interest rates. Overall debt jumped more than 50 percent between 1979 and 1984, swelling the proportion of debt to assets from 16.1 percent to an estimated 21.5 percent on

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 1/9/85	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	171.580	– .267	+ 9.222
Loans to Depository Inst.	2.062	– 1.475	+ 1.499
Float	1.258	– .792	– .688
Total Reserve Bank Credit	186.559	– 2.732	+13.060
Treasury Deposits with Federal Reserve Banks	3.490	– .543	+ .032
Currency in Circulation	182.796	– 1.106	+11.865
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	115.985	– 4.298	+ 1.799
	1/2/85		
Member Bank Reserves:			
Total Reserves Held	41.282	+ 1.684	+ 3.257
Excess (Deficiency)	1.268	+ .764	+ .310
Net Free Reserves	.217	+ .263	+ .478
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M1 (12/31/84)	557.2	+ 3.7‡	+ 5.5‡
M2 (December '84)	2,375.5	+ 12.1	+ 8.2
M3 (December '84)	2,989.0	+ 13.4	+ 10.3
Domestic Nonfinancial Debt (3rd Q'84)	5,760.0	+ 11.7	+ 12.9

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 1/11/85	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.72%	7.97%	8.36%
* Federal Agencies	7.61	8.04	9.06
* Project Notes—Taxfree (46% Taxable Equivalent)	8.33	8.80	9.26
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.05	8.45	9.25

‡Finance Company Paper—Prime	
5- 14 days	7.80%
15- 29 days	7.90
30- 59 days	7.90
60- 89 days	7.90
90-179 days	8.00
180-239 days	8.00
240-270 days	8.00

‡* Bankers' Acceptances	
Feb.	8.10%
Mar.	8.10
Apr.	8.10
May	8.15
Jun.	8.25
Jul.	8.20

‡Industrial Paper—Prime	
30- 89 days	7.90%
90-120 days	7.90

†Federal Funds Effective Rate 8.25%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'84	$ 3,695	$ 3,645	$ 3,347
Gross National Product (1972 Dollars)*	3rd Q'84	$ 1,645	$ 1,639	$ 1,550
Percent Change, Annual Rate	3rd Q'84	1.6	7.1	6.8
Change in Consumer Prices*	Nov '84	2.4%	4.8%	4.8%
Change in Producer Prices*	Dec '84n	1.2%	6.0%	2.4%
Civilian Employment (Thousands of Persons)†	Dec '84n	106,273	105,932r	103,029r
Unemployment as % of Civilian Labor Force†	Dec '84n	7.2%	7.1%r	8.2%
Personal Income*	Nov '84	$ 3,100	$ 3,079	$ 2,834
Leading Indicators Composite Index (1967=100)†	Nov '84	166.6	164.5	162.5
Industrial Production Index (1967=100) †	Nov '84	165.0	164.3	155.3
Net Change in Consumer Installment Credit †	Nov '84n	$ 7.95	$ 6.28	$ 4.82
U.S. Merchandise Trade Balance †	Nov '84	–$ 9.94	–$ 9.18	–$ 7.12
Plant and Equipment Expenditures*	1st Q'85	$337.85(a)	$321.40(a)	$293.15
Private Housing Starts (Thousands of Units)*	Nov '84	1,528	1,538	1,730
New Construction Expenditures*	Nov '84	$ 322.2	$ 318.8	$ 267.0
Total Business Inventories †	Oct '84	$ 565.3	$ 560.6	$ 509.2
Total Business Sales †	Oct '84	$ 410.8	$ 410.5	$ 382.5

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

January 1, 1985 (see chart on page 1).

. . . Their Suppliers

Declining farm incomes as well as high levels of farm debt will undoubtedly continue to sap U.S. farmers' buying power for farm inputs. The Farm and Industrial Equipment Institute reports that in 1984, farm tractor sales were down six percent in the three months ending in November. That left sales for the first 11 months of this year down 0.4 percent, year-over-year, more than 45 percent below the most recent peak reached in 1979. While sales of the less profitable and often imported smaller tractors (under 40 horsepower) were up nearly ten percent in the first 11 months of the year, demand for larger tractors slid by seven percent. Sales of harvesters plunged by 16 percent, combines by nine percent and balers by 8.5 percent.

Since manufacturers were expecting double-digit sales increases for the year, they cranked up production lines with the result that their warehouses were bulging with record inventories of unsold tractors. By August, they represented more than 14 months' supply. In turn, this forced manufacturers to idle many plants and lay off workers in an attempt to bring supplies in line with demand. So while the nation's employment situation has been improving, farm machinery manufacturers cut their payrolls.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since	
		Week Ago	Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (12/26/84)	161,131	+ 489	+12,866
New York City (1/2/85)	35,079	+ 346	+ 4,294
Commercial Paper (1/2/85)	233,182	− 4,792	+49,312

Bank Loans

(Millions of Dollars)

	Commercial and Industrial Loans		
	Latest Week	Change Since	
Weekly Reporting Large Commercial Banks		Week Ago	Year Ago
Nationwide (12/26/84)	251,572	+ 863	+ 27,715
New York City (1/2/85)	62,647	− 991	+ 3,363

	Total Loans and Leases Gross Adjusted		
	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (12/26/84)	657,026	+ 2,305	+ 103,898
New York City (1/2/85)	146,375	− 2,554	+ 15,102

Financial Markets

	Friday 1/11/85	Change Since	
		Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.03%	− .02	− 1.02
180-Day Bills†	8.51	− .09	− 1.16
Longest Bills†	9.10	− .03	− .57
Recent Issues:			
$9^{7}/_{8}$s 12/31/86	10.02	−0−	
$10^{5}/_{8}$s 12/31/88	10.71	− .15	
$11^{5}/_{8}$s 11/15/94	11.55	− .05	
$11^{3}/_{4}$s 11/15/14	11.58	− .02	
Municipals:			
Bond Buyer—20 Bond Index* (1/10/85)	9.60%	− .27	− .07
Blue List Total ($ Million)	$1,382	−$ 429	+ $238
30-Day Visible Supply ($ Million)	$1,536	−$ 572	− $920
Total	$2,918	−$1,001	− $682
Corporates:			
Moody's Aa Composite (1/10/85)	12.43%	− .12	− .28
30-Day Visible Supply ($ Million)	$ 561	+$ 211	− $ 39
Stocks:			
Dow-Jones Averages:			
Industrials	1,218.09	+ 33.13	− 52.01
Transportation	572.52	+ 19.49	− 30.44
Utilities	147.26	+ .72	+ 12.96
65 Stocks	493.61	+ 12.68	− 14.15
Standard and Poor's 500 Stocks	167.91	+ 4.23	+ .89
N.Y.S.E. Composite Index	96.99	+ 2.39	+ .33
N.Y.S.E. Avg. Daily Vol. for Week (000's)	102,164	+23,554	− 1,280

* 46% Taxable equivalent 17.78%.

† Bond equivalent.

International Rates

	Friday 1/11/85	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	8.06%	8.19%
1 month	8.13	8.38
3 month	8.31	8.63
6 month	8.81	9.06
1 year	9.56	9.81
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.40%	11.40%
Long Term (7 to 15 yrs.)	11.65	11.70

FOREIGN EXCHANGE SPOT RATES		
New York Opening (1/11/85)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.01583	63.16
Canada	.7571	1.3209
Denmark	.08834	11.3200
France	.1036	9.6550
Germany	.3171	3.1540
Italy	.0005145	1943.50
Japan	.003941	253.75
Mexico	.004386	228.00
Netherlands	.2807	3.5623
Switzerland	.3777	2.6478
U.K.	1.1253	.8887

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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, JANUARY 21, 1985 VOLUME XXII, NUMBER 3

OPEC's Hold On Oil Prices . . .

Last month's OPEC meeting in Geneva did little to alleviate the downward pressure on prices in spot oil markets. Traders have little confidence that the cartel can defend the current price structure and believe that oil prices will decline (see chart). And while the recent cold snap in North America and Europe may prop up prices for a while, weak worldwide demand, stepped-up production and lower quotes by several non-OPEC producers suggest lower prices before long. What is more, in a scramble for export revenues, it is likely that the poorer OPEC countries will continue to surpass their production quotas, further adding to excess supplies.

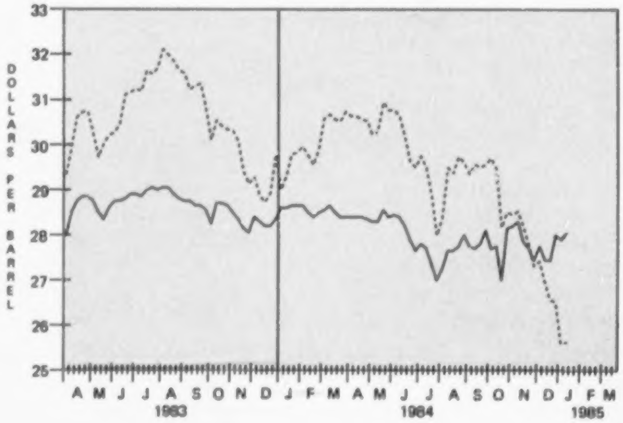
During 1984, the worldwide economic recovery finally brought an end to the slump in petroleum demand. OPEC, however, did not realize any benefit from it. All the growth in consumption was met by non-OPEC producers and inventory drawdowns. Thus, OPEC's share of total non-Communist world production dropped to around 44 percent in 1984 from 45 percent in 1983 and 67 percent in 1973. But the rise in demand was only modest, reflecting continued emphasis on conservation and, in most countries, higher prices of petroleum products. Since all petroleum transactions in international markets are conducted in dollars, most major oil importers did not gain from either the drop in spot prices or from 1983's cut in the official OPEC price. They have to pay more for their oil each time the dollar rises.

. . . Continues To Weaken . . .

For example, while the official price of a barrel of oil is now five dollars lower than it was two years ago, in West Germany this price cut has been more than offset by the 24 percent depreciation of the currency. Thus, for the Germans a barrel of oil purchased from OPEC is now nine percent more expensive than it was two years ago. What is more, since the cost of oil purchased on spot markets has fallen relatively less, oil purchased from this source has gone up even faster—13.6 percent. Italians now pay 18.6 percent more for their spot oil while the French pay 19.4 percent more.

However, Americans benefited fully from all oil price declines in the world market. Thus, declining prices of many petroleum products have been important contributors to curbing inflation. But the lower cost, the acceleration in the pace of business activity and the improved financial positions of U.S. consumers and industry have not significantly revived Americans' appetite for petroleum. Indeed, it would appear that emphasis on improving energy efficiency is as strong as ever.

CRUDE OIL SPOT PRICE FOR ARABIAN LIGHT (LINE) VS. NEARBY FUTURES PRICE (DOT)



While in the third quarter of 1984, inflation-adjusted GNP went up 6.1 percent, year-over-year, total energy consumption rose only 2.3 percent. This means that we are using less and less energy to produce the same level of output. The Department of Energy reports that in the third quarter of last year, only about 44,600 BTUs were needed to produce one dollar of real GNP, down from 46,300 the year before. By contrast, in 1973, it took more than 59,000 BTUs. The improvement is even more pronounced when only petroleum energy is considered—usage has dropped from 27,800 BTUs per each real GNP dollar in 1973, to less than 19,000 in the third quarter of last year.

. . . As Emphasis On Conservation . . .

To be sure, 1984's rise in U.S. oil consumption was the first annual increase since 1978. It was

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paced by double-digit increases in jet fuel consumption and diesel fuel as the transportation industry—airlines, railroads and truckers—posted good-sized increases in traffic, greatly benefiting from the stepped-up pace of economic activity. However, the rise in consumer demand was much more subdued. Last year, home heating oil usage declined from the year-earlier level, despite last winter's cold spell when heating oil consumption jumped 21 percent in January, year-over-year. Demand for motor gasoline ran a meager 1.3 percent above 1983's level. This is surprising, especially in view of the substantial improvement in consumer incomes and a 2.4 percent decline, year-over-year, in gasoline prices during the 11 months ending November, 1984.

American motorists have made major strides in energy conservation. This is important, since motor gasoline consumption accounts for more than 40 percent of the nation's total petroleum usage. While the number of cars now on the nation's roads has increased by more than 25 percent since 1973, consumption of gasoline is about the same now as it was 11 years earlier. The major reason has been the dramatic improvement in the fuel efficiency of the nation's fleet. The average number of miles traveled per gallon of fuel is estimated to have increased by nearly one-third since 1973. Undoubtedly, the sharp rebound in new car sales in 1983 and 1984 has helped accelerate the rise in average fuel efficiency, despite carbuyers' renewed interest in larger cars. According to the Department of Transportation,

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 1/16/85	$ Change Since	
		Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	170.051	− 1.529	+ 9.594
Loans to Depository Inst.	1.200	− .862	+ .419
Float	.720	− .538	− .578
Total Reserve Bank Credit	183.808	− 2.740	+12.570
Treasury Deposits with Federal Reserve Banks	3.463	− .027	+ .345
Currency in Circulation	180.589	− 2.197	+11.451
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	118.182	+ 2.197	+ 5.793
	1/16/85		
Member Bank Reserves:			
Total Reserves Held	41.577	+ .337	+ 2.433
Excess (Deficiency)	.714	− .515	+ .239
Net Free Reserves	.501	+ .323	+ .727
		% Change Since	
Monetary Aggregates†		Three Months Ago*	Year Ago
M1 (1/7/85)	559.4	+ 6.7‡	+ 5.6‡
M2 (December '84)	2,375.9	+ 12.2	+ 8.2
M3 (December '84)	2,988.0	+ 13.3	+ 10.2
Domestic Nonfinancial Debt (3rd Q'84)	5,760.0	+ 11.7	+ 12.9

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 1/18/85	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.70%	7.90%	8.25%
* Federal Agencies	7.95	8.50	9.05
* Project Notes—Taxfree (46% Taxable Equivalent)	8.33	8.52	8.80
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.05	8.35	9.15

‡Finance Company Paper—Prime	
5- 14 days	7.75%
15- 29 days	7.80
30- 59 days	7.85
60- 89 days	7.90
90-179 days	7.93
180-239 days	8.00
240-270 days	8.00

‡* Bankers' Acceptances	
Feb.	7.95%
Mar.	7.95
Apr.	8.00
May	8.10
Jun.	8.25
Jul.	8.20

‡Industrial Paper—Prime	
30- 89 days	7.85%
90-120 days	7.90

†Federal Funds Effective Rate 8.10%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'84	$ 3,695	$ 3,645	$ 3,347
Gross National Product (1972 Dollars)*	3rd Q'84	$ 1,645	$ 1,639	$ 1,550
Percent Change, Annual Rate	3rd Q'84	1.6	7.1	6.8
Change in Consumer Prices*	Nov '84	2.4%	4.8%	4.8%
Change in Producer Prices*	Dec '84	1.2%	6.0%	2.4%
Civilian Employment (Thousands of Persons)†	Dec '84	106,273	105,932	103,029
Unemployment as % of Civilian Labor Force†	Dec '84	7.2%	7.1%	8.2%
Personal Income*	Dec '84n	$ 3,118	$ 3,102r	$ 2,860
Leading Indicators Composite Index (1967=100)†	Nov '84	166.6	164.5	162.5
Industrial Production Index (1967=100) †	Dec '84n	166.2	165.2r	156.2
Net Change in Consumer Installment Credit †	Nov '84	$ 7.95	$ 6.28	$ 4.82
U.S. Merchandise Trade Balance †	Nov '84	−$ 9.94	−$ 9.18	−$ 7.12
Plant and Equipment Expenditures*	1st Q'85	$337.85(a)	$321.40(a)	$293.15
Private Housing Starts (Thousands of Units)*	Dec '84n	1,587	1,554r	1,694
New Construction Expenditures*	Nov '84	$ 322.2	$ 318.8	$ 267.0
Total Business Inventories †	Nov '84n	$ 564.2	$ 563.8r	$ 511.5
Total Business Sales †	Nov '84n	$ 415.0	$ 410.6r	$ 386.6

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

1985 cars—domestic and foreign—should average about 27½ miles per gallon, up from nearly 27 miles last year and 14.2 miles in 1974.

. . . Holds Down Demand

While earlier in 1984, there had been some indication that demand for residual fuel—a heavy oil used primarily for electric power generation, industrial and commercial space heating and as a ship fuel—was on the road to recovery, during the last several months of the year, consumption once again began posting year-over-year declines as substitution of alternative fuels took place in many industries. For example, coal and natural gas continued to displace petroleum in electric utilities. During the first three quarters of 1984, electric utilities generated 5.4 percent more electricity than during the first three quarters of 1983. However, they utilized 13.1 percent less petroleum during this time period, while their consumption of coal rose seven percent and natural gas by 6½ percent.

It seems a good bet that petroleum consumption will post even smaller gains in 1985 than it did in 1984. While the business expansion will remain solidly on track this year, real GNP growth is likely to slow from 1984's pace—and with it the demand for petroleum. And while prices may be temporarily bolstered by the belated onset of winter, even the cartel's promise to curb the flow of oil may not alter the dismal prospects for stabilizing world oil prices.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (1/2/85)	160,222	– 1,442	+12,552
New York City (1/9/85)	35,008	– 391	+ 4,225
Commercial Paper (1/9/85)	235,927	+ 2,720	+52,152

Bank Loans

(Millions of Dollars)

Weekly Reporting Large Commercial Banks	Commercial and Industrial Loans Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/2/85)	253,185	+ 624	+ 28,366
New York City (1/9/85)	62,361	– 289	+ 4,158

	Total Loans and Leases Gross Adjusted Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/2/85)	663,522	+ 2,900	+ 83,140
New York City (1/9/85)	143,889	– 2,468	+ 14,757

Financial Markets

	Friday 1/18/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.95%	– .08	– 1.30
180-Day Bills†	8.35	– .16	– 1.25
Longest Bills†	8.95	– .15	– .97
Recent Issues:			
$9^{7}/_{8}$s 12/31/86	9.90	– .12	
$10^{5}/_{8}$s 12/31/88	10.65	– .06	
$11^{5}/_{8}$s 11/15/94	11.38	– .17	
$11^{3}/_{4}$s 11/15/14	11.50	– .08	
Municipals:			
Bond Buyer–20 Bond Index* (1/17/85)	9.51%	– .09	– .09
Blue List Total ($ Million)	$1,254	– $128	+ $104
30-Day Visible Supply ($ Million)	$1,459	– $ 77	– $369
Total	$2,713	– $205	– $265
Corporates:			
Moody's Aa Composite (1/17/85)	12.52%	+ .09	– .20
30-Day Visible Supply ($ Million)	$ 520	– $ 41	– $464
Stocks:			
Dow-Jones Averages:			
Industrials	1,227.36	+ 9.27	– 31.75
Transportation	577.72	+ 5.20	– 18.73
Utilities	147.57	+ .31	+ 17.18
65 Stocks	497.15	+ 3.54	– 4.53
Standard and Poor's 500 Stocks	171.32	+ 3.41	+ 5.11
N.Y.S.E. Composite Index	99.04	+ 2.05	+ 2.92
N.Y.S.E. Avg. Daily Vol. for Week (000's)	126,876	+24,712	+ 29,530

* 46% Taxable equivalent 17.61%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 1/18/85	Week Ago
Overnight	8.00%	8.06%
1 month	8.13	8.13
3 month	8.25	8.31
6 month	8.63	8.81
1 year	9.50	9.56
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.35%	11.40%
Long Term (7 to 15 yrs.)	11.60	11.65

FOREIGN EXCHANGE SPOT RATES New York Opening (1/18/85)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01574	63.53
Canada	.7538	1.3266
Denmark	.08846	11.3050
France	.1030	9.7125
Germany	.3153	3.1713
Italy	.0005128	1950.00
Japan	.003933	254.25
Mexico	.004525	221.00
Netherlands	.2791	3.5833
Switzerland	.3741	2.6728
U.K.	1.1220	.8913

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MONDAY, JANUARY 28, 1985
VOLUME XXII, NUMBER 4

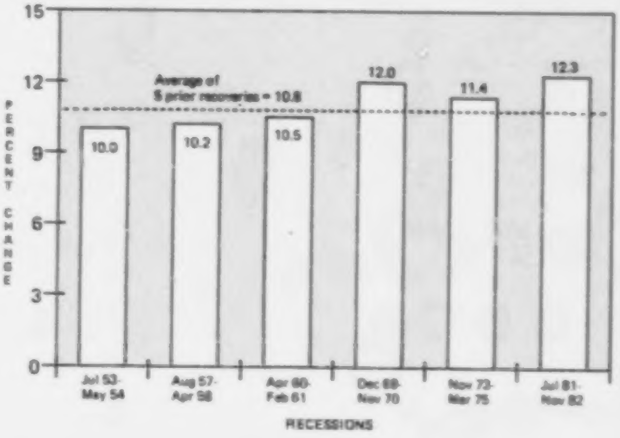
The Two-Year Old Expansion . . .

The same business forecasters who were hurriedly lowering their economic projections for 1985 just a few months ago are busy again. But this time they are doing just the opposite, namely, boosting this year's anticipated growth figures. This is because as January unfolds, a spate of upbeat business statistics covering the final months of 1984 has made it increasingly apparent that business activity is snapping out of last summer's doldrums. And if some observers of the economic scene had any lingering doubts about the economy's strength, last week's report on real GNP growth in the final quarter of 1984 should dispel them. According to the Commerce Department's estimate, the nation's output of goods and services expanded at an inflation-adjusted 3.9 percent annual rate in the fourth quarter, 1.1 percentage points higher than reported in the so-called "flash" GNP estimate a month earlier. What is more, such growth was accompanied by very little inflation. The GNP price deflator—the broadest measure of inflation—was revised to a modest 2.4 percent annual rate of rise for the October-December period, compared with the 2.9 percent clip originally reported last month.

Business activity in the fourth quarter was not only strong, but also well balanced. The increase in real output was attributed to a sharp 8.3 percent annual rate increase in inflation-adjusted final sales that more than offset a reduction in business inventory spending. This was almost the reverse of the third-quarter performance when real final sales fell one percent and the seasonally adjusted 1.6 percent annual rate gain in real GNP reflected primarily a rise in inventory accumulation.

The $14.2 billion increase in inflation-adjusted business inventories in the October-December period marks a significant slowing from the $30.6 billion accumulation pace of the third quarter. As a result, excess inventories acquired during the July-September period have largely been eliminated. If inventory spending in the fourth quarter had matched the third-quarter rate, real GNP would have increased by over eight percent. On the other hand, the economy was given a boost in the fourth quarter by a sharp slowing in imports—a delayed response to the pause in business activity in the July-September quarter. This development, however, is unlikely to be repeated, now that demand is picking up again and the dollar is reaching new highs on foreign exchange markets.

GROWTH IN REAL GROSS NATIONAL PRODUCT
FIRST EIGHT QUARTERS OF RECOVERY



. . . Sets The Stage . . .

The fourth quarter GNP numbers complete the picture of the second year of the current business expansion and provide some interesting comparisons with other postwar recoveries. For one thing, despite some predictions of a subpar business recovery, inflation-adjusted GNP has grown more rapidly than in any other expansion since 1950 (see chart). This should come as no surprise since both fiscal and monetary policies in inflation-adjusted terms have been more stimulative during this recovery than they have been in any prior postwar upswing. By contrast, the inflation rate, as measured by the implicit GNP price deflator, was lower than in any business expansion since the early 1960s. Spurred by the enhanced after-tax profitability of investment that has resulted from the 1981 change in tax depreciation rules, an unprecedented capital spending boom has also accompanied this expansion. Real fixed business investment rose more than 33 percent in the last two years, exceeding by far

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the rate of increase in investment spending at this stage of the other postwar upturns.

The vigor of this business expansion resulted in impressive gains in corporate operating profits. These profits, which exclude transitory inventory profits and are not distorted by either excessive or inadequate depreciation charges, are believed to be a more reliable gauge of corporate profitability than book profits. The rapid rate of rise in operating profits in this expansion has pushed them to an all-time high, while book profits are still below the peak reached in 1980.

However, some sectors of the economy remain bleak. The rate of rise in home construction has fallen short of that experienced in previous expansions. In the first two years of recovery from the 1973-75 recession, for example, housing starts more than doubled. Now, however, despite the robust economy, housing starts are only 15 percent above the level posted at the 1982 business trough—undoubtedly a reflection of still lofty mortgage interest rates and soaring new home prices.

Finally, the foreign trade sector has yet to share in the recovery. Because the dollar has surged in value compared with most other key currencies, the strong U.S. expansion has brought an unprecedented flood of imports, while slowing exports. Imports, which after adjustment for inflation have equaled about five percent of the real GNP on average, have

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 1/23/85	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	164.757	– 5.294	+ 4.800
Loans to Depository Inst.	.784	– .416	+ .280
Float	1.624	+ .960	+ .219
Total Reserve Bank Credit	179.280	– 4.472	+ 8.546
Treasury Deposits with Federal Reserve Banks	3.300	– .163	– 1.952
Currency in Circulation	178.695	– 1.894	+11.296
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	116.635	– 1.547	+ 4.516
	1/16/85		
Member Bank Reserves:			
Total Reserves Held	41.421	+ .167	+ 2.277
Excess (Deficiency)	.714	– .515	+ .139
Net Free Reserves	.401	+ .207	+ .627
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M1 (1/14/85)	556.8	+ 8.2‡	+ 5.7‡
M2 (December '84)	2,376.1	+ 12.2	+ 8.2
M3 (December '84)	2,988.2	+ 13.4	+ 10.2
Domestic Nonfinancial Debt (3rd Q'84)	5,760.0	+ 11.7	+ 12.9

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 1/25/85	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.55%	7.85%	8.15%
* Federal Agencies	7.85	8.00	9.00
* Project Notes—Taxfree (46% Taxable Equivalent)	7.87	8.15	8.52
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.07	8.35	9.00

‡Finance Company Paper—Prime	
5- 14 days	7.90%
15- 29 days	7.90
30- 59 days	7.90
60- 89 days	7.90
90-179 days	7.93
180-239 days	7.95
240-270 days	8.15

‡* Bankers' Acceptances	
Feb.	7.95%
Mar.	7.95
Apr.	8.00
May	8.05
Jun.	8.10
Jul.	8.10

‡Industrial Paper—Prime	
30- 89 days	7.88%
90-120 days	7.88

†Federal Funds Effective Rate 8.31%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'84n	$ 3,753	$ 3,695	$ 3,432
Gross National Product (1972 Dollars)*	4th Q'84n	$ 1,661	$ 1,645	$ 1,573
Percent Change, Annual Rate	4th Q'84n	3.9	1.6	5.9
Change in Consumer Prices*	Dec '84n	2.4%	2.4%	2.4%
Change in Producer Prices*	Dec '84	1.2%	6.0%	2.4%
Civilian Employment (Thousands of Persons)†	Dec '84	106,273	105,932	103,029
Unemployment as % of Civilian Labor Force†	Dec '84	7.2%	7.1%	8.2%
Personal Income*	Dec '84	$ 3,118	$ 3,102	$ 2,860
Leading Indicators Composite Index (1967=100)†	Nov '84	166.6	164.5	162.5
Industrial Production Index (1967=100) †	Dec '84	166.2	165.2	156.2
Net Change in Consumer Installment Credit †	Nov '84	$ 7.95	$ 6.28	$ 4.82
U.S. Merchandise Trade Balance †	Nov '84	–$ 9.94	–$ 9.18	–$ 7.12
Plant and Equipment Expenditures*	1st Q'85	$337.85(a)	$321.40(a)	$293.15
Private Housing Starts (Thousands of Units)*	Dec '84	1,587	1,554	1,694
New Construction Expenditures*	Nov '84	$ 322.2	$ 318.8	$ 267.0
Total Business Inventories †	Nov '84	$ 564.2	$ 563.8	$ 511.5
Total Business Sales †	Nov '84	$ 415.0	$ 410.6	$ 386.6

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

doubled their share in the current upturn; add to this the diminished price competitiveness of U.S. produced goods in world markets due to the strong dollar and it is hardly surprising that the U.S. ran a record merchandise trade deficit in 1984.

. . . For Continuing Growth In 1985

Recent statistics seem to indicate that the economy has entered 1985 with strong momentum and that the strength is becoming more broadly based. The fundamentals for further consumer spending increases remain sound. Employment and incomes continue to grow. Lower interest rates and readily available credit should spur consumer spending for such big-ticket items as housing and durable goods. Nor does a sharp retrenchment of business spending seem likely. Fierce competition from imports continues to give the business sector a strong incentive to keep investing in cost-cutting plant and equipment. Production cutbacks in the September-October period substantially improved the inventory situation: Factory inventories fell in November, while retail inventories increased only slightly. Slower inventory growth combined with faster sales reduced the business inventory-to-sales ratio to 1.36—the first drop since May. With restored control over inventories achieved in the fourth quarter, restocking should contribute to growth in the coming months. Add to that the fiscal-monetary policy mix now in place, and it appears a good bet that the business expansion will continue throughout most—if not all—of 1985.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (1/9/85)	159,796	– 773	+12,147
New York City (1/16/85)	34,672	– 336	+ 5,430
Commercial Paper (1/16/85)	239,657	+ 3,664	+54,766

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/9/85)	250,621	– 2,802	+ 27,033
New York City (1/16/85)	62,864	+ 503	+ 4,813

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/9/85)	657,338	– 7,027	+ 77,312
New York City (1/16/85)	144,053	+ 155	+ 15,111

Financial Markets

	Friday 1/25/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.85%	– .10	– 1.40
180-Day Bills†	8.30	– .05	– 1.30
Longest Bills†	8.85	– .10	– .98
Recent Issues:			
$9^{3}/_{4}$s 1/31/87 (When Issued)	9.75	NA	
$10^{5}/_{8}$s 12/31/88	10.40	– .25	
$11^{5}/_{8}$s 11/15/94	11.05	– .33	
$11^{3}/_{4}$s 11/15/14	11.15	– .35	
Municipals:			
Bond Buyer—20 Bond Index* (1/24/85)	9.21%	– .30	– .38
Blue List Total ($ Million)	$1,138	– $116	– $138
30-Day Visible Supply ($ Million)	$1,800	+ $341	+ $483
Total	$2,938	+ $225	+ $345
Corporates:			
Moody's Aa Composite (1/24/85)	12.28%	– .24	– .41
30-Day Visible Supply ($ Million)	$ 370	– $150	– $564
Stocks:			
Dow-Jones Averages:			
Industrials	1,276.06	+ 48.70	+ 46.06
Transportation	606.73	+ 29.01	+ 39.58
Utilities	148.18	+ .61	+ 15.52
65 Stocks	515.66	+ 18.51	+ 26.93
Standard and Poor's 500 Stocks	177.35	+ 6.03	+ 13.41
N.Y.S.E. Composite Index	102.42	+ 3.38	+ 7.66
N.Y.S.E. Avg. Daily Vol. for Week (000's)	150,038	+23,162	+ 47,320

* 46% Taxable equivalent 17.06%.

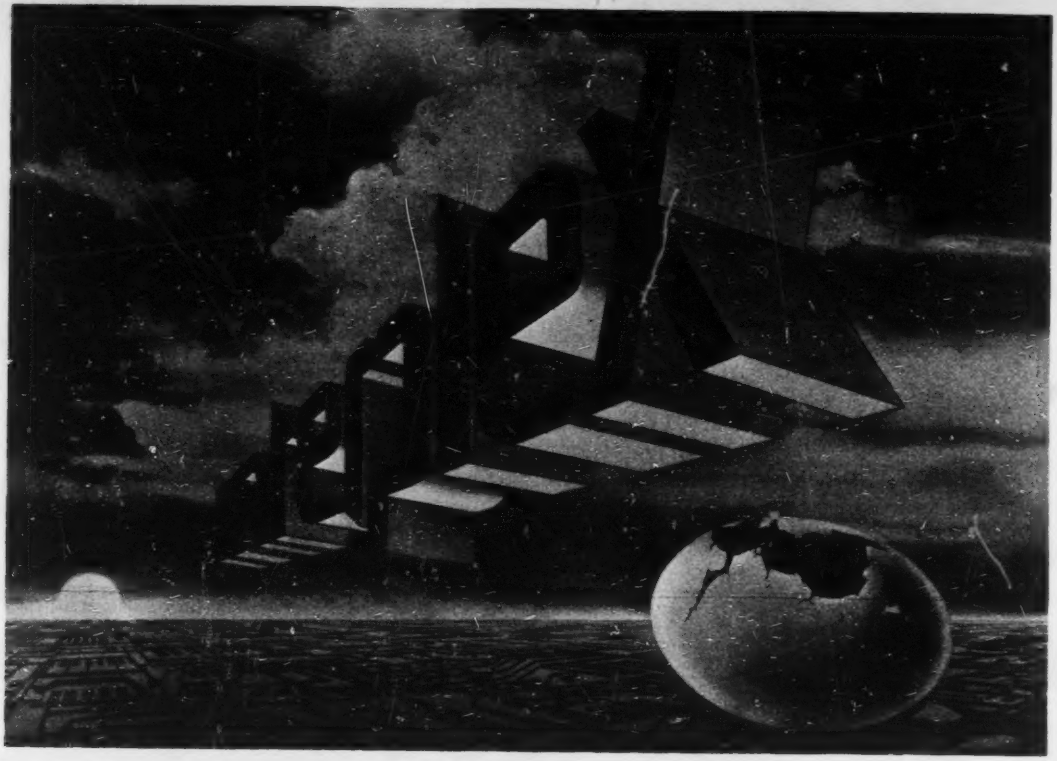
† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 1/25/85	Week Ago
Overnight	8.19%	8.00%
1 month	8.13	8.13
3 month	8.19	8.25
6 month	8.50	8.63
1 year	9.13	9.50
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.05%	11.35%
Long Term (7 to 15 yrs.)	11.30	11.60

FOREIGN EXCHANGE SPOT RATES

New York Opening (1/25/85)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01583	63.19
Canada	.7552	1.3242
Denmark	.08859	11.2880
France	.1035	9.6625
Germany	.3166	3.1590
Italy	.0005135	1947.50
Japan	.003942	253.70
Mexico	.004464	224.00
Netherlands	.279[illegible]	3.5723
Switzerland	.3765	2.6563
U.K.	1.1195	.8933



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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, FEBRUARY 4, 1985

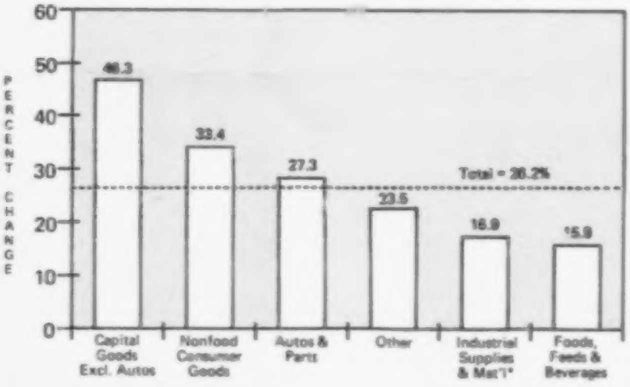
VOLUME XXII NUMBER 5

Record U.S. Imports . . .

Last week's release of the December merchandise trade numbers showed, to no one's great surprise, that the U.S. in 1984 chalked up another record merchandise trade deficit. At $123.3 billion, the excess of imports over exports was up a staggering 78 percent from the previous year. This trade gap occurred in spite of an 8.7 percent rise in the value of U.S. exports. But the improvement in exports was swamped by a flood of imports—26.2 percent above the previous year. Thus it is the surge in imports that is chiefly responsible for the record merchandise trade deficit.

The fact that exports rose by almost nine percent in the face of intense competition from abroad and the severe erosion of competitiveness caused by the dollar's relative strength in terms of other currencies is certainly worthy of note. It reflects, among other things, the rise of industries producing items unique to the U.S. in terms of quality, technology, etc. On the other hand, the 26 percent rise in the dollar value of imports in some cases understates the inflow of merchandise into the U.S. because of price declines.

CHART I
U.S. IMPORTS OF SELECTED PRODUCTS:
1984 VS. 1983 (PERCENT CHANGE)

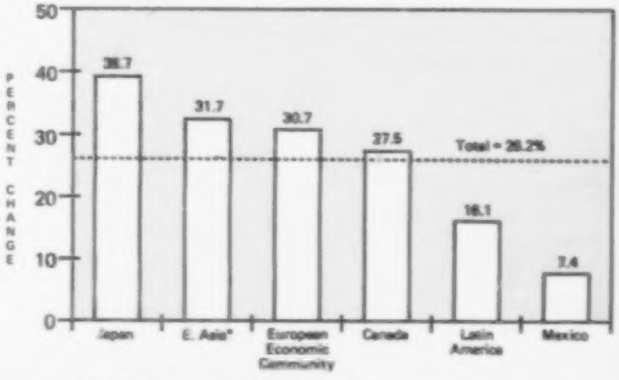


*Includes petroleum imports

. . . Of A Wide Variety Of Goods . . .

Imports skyrocketed in 1984 across virtually the entire spectrum of goods (see Chart I). Last year, imports of capital goods, excluding automobiles, were 46 percent above 1983 levels, on a customs value basis. Consumer goods and automotive vehicles and parts were up 33 percent and 27 percent respectively. Industrial supplies and materials, which in dollar terms is the largest category of imports, rose by about 17 percent.

CHART II
U.S. IMPORTS FROM SELECTED AREAS:
1984 VS. 1983 (PERCENT CHANGE)



*Hong Kong, Singapore, South Korea and Taiwan

Both manufactured goods and agricultural products benefited from the surge in imports. More specifically, new passenger cars, electrical machinery, telecommunications equipment, iron and steel, as well as clothing imports were up substantially. But while both the foods, feeds and beverages category and the industrial supplies and materials category of imports were each up by about 16 percent, the categories which are largely manufactured goods were up an average of 35 percent. Since exports of the developing countries are, in large measure, in the food and raw materials categories while the industrial and industrializing countries usually supply manufactured goods, this suggests that this latter group is benefiting more from our appetite for foreign goods than the former.

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. . . Have Helped Some Countries . . .

This view is confirmed when the dollar value of U.S. imports in 1984 is considered. Imports in the food and industrial raw materials groups amounted to $144.7 billion, while manufactured goods imports added up to $173.3 billion. Compared with 1983, producers of food and industrial raw materials increased their incomes by about $21 billion, while producers of manufactured goods benefited on the order of $45 billion. Although detailed data are incomplete, it is clear that on a percentage basis as well as on a dollar basis, industrial exporters have benefited much more than food and raw materials producers.

An analysis of regional trade patterns reveals a similar picture (see Chart II on page 1). Based on the data now available for last year, imports into this country from Latin America rose by a relatively modest 16 percent, while our exports south of the border rose by 20.5 percent. Conversely, imports from the European Economic Community were up 31 percent over 1983 and up about 39 percent from Japan. East Asian countries such as Hong Kong, Singapore, South Korea and Taiwan have also benefited by exports to the U.S., with a 32 percent jump in 1984. Some of these countries' exports include a mix of both commodities and manufactured goods. With recent low commodity prices, however, their manufactured exports have tended to dominate the export picture in value terms.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 1/30/85	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	165.736	+ .979	+ 5.186
Loans to Depository Inst.	1.167	+ .383	+ .495
Float	.884	− .728	− .037
Total Reserve Bank Credit	179.903	+ .628	+ 8.699
Treasury Deposits with Federal Reserve Banks	4.946	+ 1.646	− 2.234
Currency in Circulation	177.309	− 1.377	+10.962
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	116.856	+ .221	+ 5.123
	1/30/85		
Member Bank Reserves:			
Total Reserves Held	39.883	− 1.540	+ 2.277
Excess (Deficiency)	.643	+ .021	+ .140
Net Free Reserves	.180	− .229	+ .242

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (1/21/85)	561.6	+ 9.3‡	+ 5.7‡
M2 (December '84)	2,376.3	+ 12.3	+ 8.2
M3 (December '84)	2,987.3	+ 13.3	+ 10.2
Domestic Nonfinancial Debt (3rd Q'84)	5,760.0	+ 11.7	+ 12.9

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 2/1/85	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	8.10%	8.20%	8.45%
* Federal Agencies	7.85	8.20	8.55
* Project Notes—Taxfree (46% Taxable Equivalent)	8.15	8.52	9.26
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.45	8.65	9.10

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	8.38%	Mar.	8.40%
15- 29 days	8.38	Apr.	8.40
30- 59 days	8.38	May	8.40
60- 89 days	8.35	Jun.	8.45
90-179 days	8.10	Jul.	8.50
180-239 days	8.00	Aug.	8.45
240-270 days	8.00		

‡Industrial Paper—Prime			
30- 89 days	8.35%	†Federal Funds	
90-120 days	8.30	Effective Rate	8.75%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'84	$ 3,753	$ 3,695	$ 3,432
Gross National Product (1972 Dollars)*	4th Q'84	$ 1,661	$ 1,645	$ 1,573
Percent Change, Annual Rate	4th Q'84	3.9	1.6	5.9
Change in Consumer Prices*	Dec '84	2.4%	2.4%	2.4%
Change in Producer Prices*	Dec '84	1.2%	6.0%	2.4%
Civilian Employment (Thousands of Persons)†	Jan '85n	106,391	106,273	103,294
Unemployment as % of Civilian Labor Force†	Jan '85n	7.4%	7.2%	8.0%
Personal Income*	Dec '84	$ 3,118	$ 3,102	$ 2,860
Leading Indicators Composite Index (1967=100)†	Dec '84n	164.9	165.2r	163.4
Industrial Production Index (1967=100) †	Dec '84	166.2	165.2	156.2
Net Change in Consumer Installment Credit †	Nov '84	$ 7.95	$ 6.28	$ 4.82
U.S. Merchandise Trade Balance †	Dec '84n	−$ 8.20	−$ 9.94	−$ 6.74
Plant and Equipment Expenditures*	1st Q'85	$337.85(e)	$321.40(e)	$293.15
Private Housing Starts (Thousands of Units)*	Dec '84	1,587	1,554	1,694
New Construction Expenditures*	Dec '84n	$ 318.7	$ 316.0r	$ 263.9
Total Business Inventories †	Nov '84	$ 564.2	$ 563.8	$ 511.5
Total Business Sales †	Nov '84	$ 415.0	$ 410.6	$ 386.6

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. e-Anticipated.

. . . More Than Others

Several of these countries, benefiting from low unit labor costs, have become assembly areas for labor-intensive products, particularly for mass produced electronic products. In some cases, parts and sub-assemblies manufactured in the U.S. are sent to these countries for final assembly and then returned here, inflating the value of those countries' exports.

In 1984, the U.S. again incurred a deficit with most of its principal trading partners. The U.S. trade deficit with Japan was over $34 billion last year, while Canada had a $20 billion surplus in its trade with the U.S. and Germany's surplus was about $8 billion. Although Mexico exported about $6 billion more in goods to this country in 1984 than we did to them, U.S. exports grew by about 32 percent, while our imports were up only eight percent. It appears that Mexico may be easing somewhat the import controls it imposed several years ago.

Although the U.S. economy should continue to grow in 1985, the rate of growth of U.S. imports is expected to moderate because our growth will slow. Nonetheless, both industrial and developing countries will still benefit. The U.S. merchandise trade deficit will remain an important factor in economic growth abroad and should stimulate a further expansion of world trade.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (1/16/85)	157,973	– 1,819	+13,610
New York City (1/23/85)	34,301	– 371	+ 5,684
Commercial Paper (1/23/85)	239,872	+ 142	+54,482

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/16/85)	251,138	+ 567	+ 27,973
New York City (1/23/85)	61,797	– 1,024	+ 4,060

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/16/85)	656,903	– 395	+ 77,776
New York City (1/23/85)	141,287	– 2,846	+ 13,440

Financial Markets

	Friday 2/1/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.10%	+ .25	– .87
180-Day Bills†	8.47	+ .17	– .77
Longest Bills†	8.94	+ .09	– .57
Recent Issues:			
$9^{3}/_{4}$s 1/31/87	9.80	+ .05	
$10^{5}/_{8}$s 12/31/88	10.20	– .20	
$11^{5}/_{8}$s 11/15/94	11.10	+ .05	
$11^{3}/_{4}$s 11/15/14	11.13	– .02	
Municipals:			
Bond Buyer–20 Bond Index* (1/31/85)	9.37%	+ .16	– .14
Blue List Total ($ Million)	$1,482	+$ 344	+ $ 191
30-Day Visible Supply ($ Million)	$3,396	+$1,596	+ $1,701
Total	$4,878	+$1,940	+ $1,892
Corporates:			
Moody's Aa Composite (1/31/85)	12.29%	+ .01	– .33
30-Day Visible Supply ($ Million)	$ 285	–$ 85	– $ 527
Stocks:			
Dow-Jones Averages:			
Industrials	1,277.72	+ 1.66	+ 80.69
Transportation	609.94	+ 3.21	+ 74.57
Utilities	148.65	+ .47	+ 16.76
65 Stocks	517.03	+ 1.37	+ 44.28
Standard and Poor's 500 Stocks	178.90	+ 1.55	+ 18.08
N.Y.S.E. Composite Index	103.23	+ .81	+ 10.25
N.Y.S.E. Avg. Daily Vol. for Week (000's)	130,552	–19,486	+ 21,570

* 46% Taxable equivalent 17.35%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 2/1/85	Week Ago
Overnight	8.50%	8.19%
1 month	8.56	8.13
3 month	8.81	8.19
6 month	9.00	8.50
1 year	9.63	9.13
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.20%	11.05%
Long Term (7 to 15 yrs.)	11.40	11.30

FOREIGN EXCHANGE SPOT RATES

New York Opening (2/1/85)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01574	63.52
Canada	.7541	1.3261
Denmark	.08850	11.3000
France	.1031	9.7000
Germany	.3153	3.1720
Italy	.0005113	1955.80
Japan	.003902	256.25
Mexico	.004367	229.00
Netherlands	.2788	3.5863
Switzerland	.3716	2.6908
U.K.	1.1280	.8865

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The Manufacturers Hanover Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, FEBRUARY 11, 1985
VOLUME XXII, NUMBER 6

For The Nation's Workers . . .

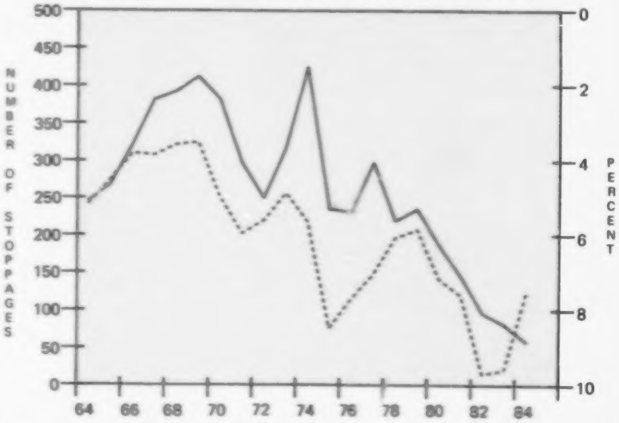
Since labor costs account for more than two-thirds of business operating costs, one of the most important assumptions that companies make in their corporate plans involves the future labor climate. Now that the third year of economic recovery is underway and the unemployment rate has retreated by more than three percentage points from its most recent peak, should business expect labor to flex its muscle and try to regain ground lost over the past three or four years? Or will modest wage increases, with job security remaining the top priority, continue to be labor's objective?

Indications are that while incidences of pay concessions may be less frequent, it is a good bet that most workers will not be winning major pay hikes, either. Expectations of the inflation rate staying firmly under control and of corporations' need to contain costs in the face of deregulation of many industries and growing inroads by foreign producers should once again act as a brake on wage gains this year. What is more, labor probably realizes that boosting wages and benefits much higher could eliminate many jobs--by driving some production out of the country, stepping up automation or forcing some companies out of business. And with the unemployment rate still at a relatively high level of 7.4 percent of the labor force, workers seem more ready to accept smaller wage hikes than ever before. In 1984, strike activity fell to the lowest level on record. The Bureau of Labor Statistics (BLS) reports that last year there were only 58 major work stoppages involving a total of 363,000 workers. This was down from 81 incidents in 1983 and 235 as recently as in 1979 (see chart).

. . . It Will Be Another Year . . .

Last year's relatively modest settlement between the United Auto Workers and two major car manufacturers will probably have some influence on this year's negotiations. Job security seemed to be the union's primary goal as the contract provided sizable funds to assist displaced workers, while calling for a wage increase of only 2¼ percent in the first year and lump sum payments of 2¼ percent in the second and third years of the contract. Workers will also receive cost-of-living adjustments. However, the auto industry is in much better shape than most of the industries scheduled to bargain in 1985. Sales of domestic autos and trucks soared more than 20 percent in 1984 from year-earlier levels, swelling payrolls to a five-year high and enabling the Big Three auto producers to post healthy profit gains.

NUMBER OF WORK STOPPAGES INVOLVING 1,000 WORKERS OR MORE (LINE) VS. CIVILIAN UNEMPLOYMENT RATE – INVERTED SCALE (DOT)



On the other hand, the trucking industry, where negotiations will take place next month, has been devastated over the past four years by deregulation, higher taxes, rising road fees and shipping rate wars. Since 1980, when the Motor Carrier Act created almost unrestricted competition by allowing newcomers to enter the business easily, nearly 300 companies have failed. The new nonunion companies offer lower haul rates and pay smaller wages. Similarly, the unemployment rate in the apparel industry has come down recently, but there are still 100,000 fewer workers employed in the industry now than there were five years ago. The most important threat to the industry has been stiff foreign competition. Apparel imports have been rising faster than domestic sales, and now are estimated to represent more than 50 percent of the domestic market. Other industries which will negotiate new contracts this year include construction, rubber, electrical products, meatpacking and the last of the Big Three auto producers.

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After three years of heavy activity, this year's bargaining calendar in private industry will be relatively light. The traditional cycle of two years of heavy activity followed by a third year of lighter activity, which had existed since the mid-1950s, was broken in 1982. Then, contracts between the United Auto Workers and two major car manufacturers were negotiated before their expiration for a 2½-year period rather than the typical three-year duration.

Despite the robust pace of economic activity in 1984, last year's major collective bargaining settlements called for pay increases of only 2.3 percent annually over the life of the contracts. This was less than half the average wage hike the same unions received the last time they bargained, generally two to three years earlier. In fact, wages will go up by less than at any time since the BLS started keeping track. While three quarters won wage increases in the first year averaging 3.8 percent, the rest agreed to either wage freezes or pay cuts.

Construction workers, who in the past often received the steepest pay hikes, fared the worst last year. On balance, they received practically no increase at all in the first contract year, with many settling for sharp pay reductions. It seems that the inflation-adjusted 31 percent increase in residential and nonresidential construction spending did not strengthen construction workers' bargaining position at all. This is because union contractors have been

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 2/6/85	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	164.787	− .949	+ 8.051
Loans to Depository Inst.	1.642	+ .475	+ 1.283
Float	1.467	+ .590	+ .674
Total Reserve Bank Credit	180.162	+ .261	+13.325
Treasury Deposits with Federal Reserve Banks	5.015	+ .069	+ .305
Currency in Circulation	177.666	+ .357	+10.728
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	115.854	− 1.002	+ 3.447
	1/30/85		
Member Bank Reserves:			
Total Reserves Held	39.940	− 1.492	+ 2.334
Excess (Deficiency)	.761	+ .126	+ .258
Net Free Reserves	.307	− .115	+ .369
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M1 (1/28/85)	559.6	+ 10.4‡	+ 5.5‡
M2 (December '84)	2,376.3	+ 12.3	+ 8.2
M3 (December '84)	2,989.3	+ 13.5	+ 10.3
Domestic Nonfinancial Debt (3rd Q'84)	5,760.0	+ 11.7	+ 12.9

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 2/8/85	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	8.25%	8.35%	8.50%
* Federal Agencies	8.15	8.50	9.15
* Project Notes–Taxfree (46% Taxable Equivalent)	7.87	8.33	9.26
Negotiable Time CDs Manufacturers Hanover		Rates By Arrangement	
* Secondary Market–Prime	8.75	9.00	9.80

‡Finance Company Paper–Prime	
5- 14 days	8.50%
15- 29 days	8.50
30- 59 days	8.50
60- 89 days	8.50
90-179 days	8.50
180-239 days	8.50
240-270 days	8.50

‡* Bankers' Acceptances	
Mar.	8.65%
Apr.	8.65
May	8.65
Jun.	8.70
Jul.	8.75
Aug.	8.75

‡Industrial Paper–Prime	
30- 89 days	8.40%
90-120 days	8.40

†Federal Funds	
Effective Rate	8.50%

‡Discount basis. *Subject to availability. †Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'84	$ 3,753	$ 3,695	$ 3,432
Gross National Product (1972 Dollars)*	4th Q'84	$ 1,661	$ 1,645	$ 1,573
Percent Change, Annual Rate	4th Q'84	3.9	1.6	5.9
Change in Consumer Prices*	Dec '84	2.4%	2.4%	2.4%
Change in Producer Prices*	Dec '84	1.2%	6.0%	2.4%
Civilian Employment (Thousands of Persons)†	Jan '85	106,391	106,273	103,294
Unemployment as % of Civilian Labor Force†	Jan '85	7.4%	7.2%	8.0%
Personal Income*	Dec '84	$ 3,118	$ 3,102	$ 2,860
Leading Indicators Composite Index (1967=100)†	Dec '84	164.9	165.2	163.4
Industrial Production Index (1967=100)†	Dec '84	166.2	165.2	156.2
Net Change in Consumer Installment Credit†	Nov '84	$ 7.95	$ 6.28	$ 4.82
U.S. Merchandise Trade Balance†	Dec '84	−$ 8.20	−$ 9.94	−$ 6.74
Plant and Equipment Expenditures*	1st Q'85	$337.85(a)	$321.40(a)	$293.15
Private Housing Starts (Thousands of Units)*	Dec '84	1,587	1,554	1,694
New Construction Expenditures*	Dec '84	$ 318.7	$ 316.0	$ 263.9
Total Business Inventories†	Nov '84	$ 564.2	$ 563.8	$ 511.5
Total Business Sales†	Nov '84	$ 415.0	$ 410.6	$ 386.6

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

faced with intensifying competition from nonunion firms which have lower pay scales, offer fewer benefits and have less restrictive work practices.

. . . Of Modest Wage Increases

The deceleration in wage increases has not been confined only to union pay. It has occurred in the nonunion sector as well. After reaching a peak in early 1981—at nearly nine percent, year-over-year—nonunion wage increases shrank to 4½ percent in the second half of 1984. Thus, the overall rise in average compensation (which includes union and nonunion workers) was down nearly two-thirds in 1984 from the peak rate of advance posted in 1980 and was the smallest in nearly 20 years.

When productivity gains are factored in, the picture improves even more. The resulting labor costs per unit of output have risen only 1.9 percent since the end of the recession. This represents less than half the average rise posted in the first two years of recovery of those earlier postwar business expansions which lasted this long. Improvements in labor efficiency may represent more than just a cyclical revival. Corporate spending on durable equipment jumped 21.7 percent last year, after adjusting for inflation, exceeding all annual gains since 1947. In addition, new regulatory restraints seem to be coming on more slowly, while the baby boomers are maturing and are no longer the inexperienced teenagers they were in the 1970s.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (1/23/85)	157,524	– 390	+13,788
New York City (1/30/85)	33,760	– 541	+ 5,400
Commercial Paper (1/30/85)	241,949	+ 2,078	+56,326

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/23/85)	249,551	– 1,613	+ 27,351
New York City (1/30/85)	61,595	– 202	+ 3,793

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/23/85)	652,050	– 4,900	+ 74,780
New York City (1/30/85)	140,084	– 1,071	+ 8,679

Financial Markets

	Friday 2/8/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.49%	+ .39	– .91
180-Day Bills†	8.76	+ .29	– .96
Longest Bills†	9.12	+ .18	– .78
Recent Issues:			
$9^{3}/_{4}$s 1/31/87	10.00	+ .20	
$10^{5}/_{8}$s 12/31/88	10.75	+ .55	
$11^{1}/_{4}$s 2/15/95 (When Issued)	11.36	NA	
$11^{1}/_{4}$s 2/15/15 (When Issued)	11.26	NA	
Municipals:			
Bond Buyer–20 Bond Index* (2/7/85)	9.52%	+ .15	– .04
Blue List Total ($ Million)	$1,623	+ $141	+ $127
30-Day Visible Supply ($ Million)	$2,862	– $534	+ $568
Total	$4,485	– $393	+ $695
Corporates:			
Moody's Aa Composite (2/7/85)	12.40%	+ .11	– .18
30-Day Visible Supply ($ Million)	$ 445	+ $160	– $592
Stocks:			
Dow-Jones Averages:			
Industrials	1,289.97	+ 12.25	+ 129.27
Transportation	630.09	+ 20.15	+ 115.54
Utilities	150.80	+ 2.15	+ 23.63
65 Stocks	525.70	+ 8.40	+ 68.79
Standard and Poor's 500 Stocks	182.19	+ 3.29	+ 25.89
N.Y.S.E. Composite Index	105.39	+ 2.16	+ 15.32
N.Y.S.E. Avg. Daily Vol. for Week (000's)	133,470	+ 2,918	+ 26,546

* 46% Taxable equivalent 17.63%.

† Bond equivalent.

International Rates

	Friday 2/8/85	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	8.44%	8.50%
1 month	8.75	8.56
3 month	9.13	8.81
6 month	9.44	9.00
1 year	10.13	9.63
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.25%	11.20%
Long Term (7 to 15 yrs.)	11.50	11.40

FOREIGN EXCHANGE SPOT RATES

New York Opening (2/8/85)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01539	64.9850
Canada	.7487	1.3356
Denmark	.08641	11.5730
France	.1011	9.8950
Germany	.3084	3.2425
Italy	.0005018	1993.00
Japan	.003837	260.65
Mexico	.004329	231.00
Netherlands	.2725	3.6703
Switzerland	.3619	2.7631
U.K.	1.1175	.8949

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The Manufacturers Hanover Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

FRIDAY, FEBRUARY 15, 1985
VOLUME XXII, NUMBER 7

Commodity Prices . . .

With new record highs for the dollar becoming an almost weekly event, many of the economic effects of a powerful currency are becoming increasingly apparent. Not the least of these is the effect on commodity prices. Between the beginning of 1983 and the beginning of 1984, the IMF's index of commodity prices (excluding oil) rose by 17 percent in dollar terms, even as there was a 15 percent rise in the trade-weighted value of the dollar. This sharp rise in commodity prices, despite a long history of decline since the dollar began appreciating in 1980, reflected burgeoning demand for commodities to feed a vigorous economic recovery in this country as well as the somewhat more modest upturn in other industrial nations.

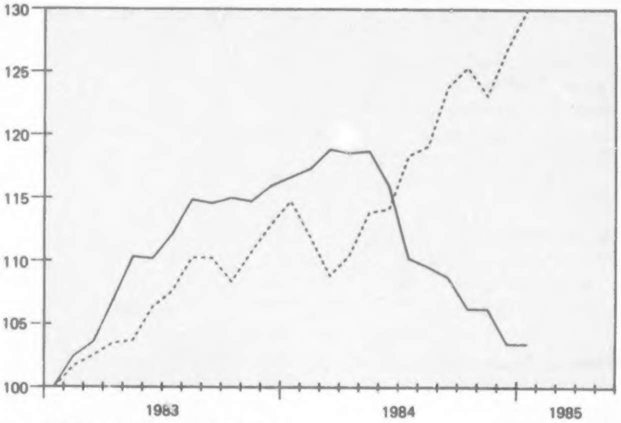
Commodity prices were forced up in spite of the appreciation of the dollar. But as the U.S. economy settled into a slower but more sustainable period of growth, around the middle of last year, global commodity prices began to fall again. This reflected slower growth in demand in the U.S.—and restored the more normal inverse relationship between the price of internationally traded goods and an appreciating dollar (see chart).

This reversal of the relationship between the appreciation of the dollar and global commodity prices has other causes beyond the slowing of U.S. economic growth. As the dollar has grown in strength versus the currencies of the commodity exporters, demand has fallen sharply from buyers with other currencies, reducing the exporters' overall earnings. Many producers have attempted to maintain the level of their earnings in dollar terms by increasing production. This has aggravated the excess of supply, further depressing prices for their exports. This effect is most clearly seen in the well-publicized problems which OPEC has experienced in keeping both prices and production quotas in line. Some of the poorer members see the continuing erosion of their incomes, while the cost of their imports from industrial countries rise.

. . . Surge Higher Overseas . . .

Commodity prices have also plunged in dollar terms due to the different impact on buyers of commodities in the other industrial countries as a result of changes in the exchange rate between their currencies and the dollar. For example, between the beginning and the end of 1984, the dollar appreciated by 18 percent against the pound sterling. Even if the dollar price of a particular commodity remained stable in dollar terms, it would still have increased by 18 percent to the British buyer.

ALL COMMODITIES INDEX* (LINE) VS. U.S. TRADE WEIGHTED DOLLAR INDEX (DOT) (JAN. 1983=100)



*IMF Index of Commodity Prices.

The exchange rate effects can make a considerable difference in the prices of commodities to the point where demand is seriously affected. For example, sugar prices rose by 16 percent in terms of the British pound between the beginning of the U.S. recovery and the end of last month, but they have dropped by about 25 percent in dollar terms over the same period, reaching a 14-year low. Copper and rubber prices, too, have risen on the London market, while falling in New York.

Most commodities are, of course, quoted on both the London and New York markets, with prices reflecting the changing and often volatile exchange rate between the pound and the dollar. Since the world price of such a globally traded commodity as sugar tends toward equilibrium in terms of purchasing power, changes in exchange rates are adjusted by the commodity markets. As the dollar appreciates, commodity prices will tend to cheapen

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in dollar terms (helping keep U.S. inflation down) and become more expensive in sterling terms (making their price battle more difficult). Other commodity buyers will benefit or suffer, price-wise, depending on the relationship of their currency to the dollar or to the pound and in which currency they must pay for their purchases.

Many commodities are traditionally priced in a particular currency, usually either the dollar or the pound. Most international transactions for these goods are paid for in these currencies. Commodities which are priced in dollars have seen demand fall sharply as they become too expensive for purchasers with other currencies. Lower demand for dollar-priced goods will result in lower prices for them, while commodities priced in other currencies will appear to fall in an index based on dollars. In both cases, prices will fall in a dollar-based commodity index.

. . . But Ebb Here

Although the extent and effect of changing commodity prices reflect exchange rate considerations, global inflation rates and supply and demand factors also continue to have their impact. The rapid easing of inflation in the industrial nations has intensified price competition in the international marketplace,

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 2/13/85	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	165.348	+ .561	+ 9.058
Loans to Depository Inst.	1.095	− .547	+ .342
Float	.728	− .739	− .343
Total Reserve Bank Credit	179.559	− .603	+12.526
Treasury Deposits with Federal Reserve Banks	4.797	− .218	+ .399
Currency in Circulation	178.479	+ .822	+11.044
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	116.226	+ .372	− .454
	2/13/85		
Member Bank Reserves:			
Total Reserves Held	40.139	+ .188	+ 2.959
Excess (Deficiency)	1.013	+ .228	− .181
Net Free Reserves	.715	+ .384	+ .175
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M1 (2/4/85)	565.0	‡	‡
M2 (January '85)	2,400.4	+ 14.1	+ 9.0
M3 (January '85)	3,028.3	+ 14.1	+ 11.4
Domestic Nonfinancial Debt (3rd Q'84)	5,760.0	+ 11.7	+ 12.9

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Data unavailable due to revisions.

New York Money Market

Offering Rates 2/15/85	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	8.17%	8.25%	8.43%
* Federal Agencies	8.32	8.56	9.24
* Project Notes—Taxfree (46% Taxable Equivalent)	7.96	8.33	8.80
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.55	8.85	9.50

‡Finance Company Paper—Prime	
5- 14 days	8.40%
15- 29 days	8.40
30- 59 days	8.40
60- 89 days	8.45
90-179 days	8.50
180-239 days	8.50
240-270 days	8.50

‡* Bankers' Acceptances	
Mar.	8.50%
Apr.	8.55
May	8.60
Jun.	8.65
Jul.	8.65
Aug.	8.65

‡Industrial Paper—Prime	
30- 89 days	8.43%
90-120 days	8.45

†Federal Funds	
Effective Rate	8.50%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'84	$ 3,753	$ 3,695	$ 3,432
Gross National Product (1972 Dollars)*	4th Q'84	$ 1,661	$ 1,645	$ 1,573
Percent Change, Annual Rate	4th Q'84	3.9	1.6	5.9
Change in Consumer Prices*	Dec '84	2.4%	2.4%	2.4%
Change in Producer Prices*	Jan '85n	0.0%	2.4%r	8.4%r
Civilian Employment (Thousands of Persons)†	Jan '85	106,391	106,273	103,294
Unemployment as % of Civilian Labor Force†	Jan '85	7.4%	7.2%	8.0%
Personal Income*	Dec '84	$ 3,118	$ 3,102	$ 2,860
Leading Indicators Composite Index (1967=100)†	Dec '84	164.9	165.2	163.4
Industrial Production Index (1967=100) †	Jan '85n	166.6	165.9r	158.5
Net Change in Consumer Installment Credit †	Dec '84n	$ 6.95	$ 7.95	$ 5.78
U.S. Merchandise Trade Balance †	Dec '84	−$ 8.20	−$ 9.94	−$ 6.74
Plant and Equipment Expenditures*	1st Q'85	$337.85(a)	$321.40(a)	$293.15
Private Housing Starts (Thousands of Units)*	Dec '84	1,587	1,554	1,694
New Construction Expenditures*	Dec '84	$ 318.7	$ 316.0	$ 263.9
Total Business Inventories †	Dec '84n	$ 566.5	$ 565.0r	$ 514.3
Total Business Sales †	Dec '84n	$ 416.9	$ 414.5r	$ 395.7

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

putting downward pressure on prices at all levels.

The strength of the dollar also may create changes in trade patterns. Developing countries are the principal exporters of basic commodities and industrial raw materials. In many cases, they generate their foreign exchange almost entirely from these exports. If these countries can maintain or increase their market share in dollar-denominated trade, they can sustain their ability to meet their external debt obligations which are almost entirely denominated in dollars. Further, they can maintain their purchasing power when buying dollar-priced imports. But, to the extent that a developing country sells its exports to countries outside the U.S. while it buys its imports from the U.S., its purchasing power is reduced. What is more, such a country must increase the volume of non-U.S. exports in order to catch up. Conversely, a developing country is encouraged by a strong dollar to maximize its exports to the U.S., while at the same time minimizing its imports from this country. Although there is not yet clear evidence that such a shift in trade patterns has taken place to a great degree, a sustained period of dollar strength would encourage such a move. This would add further to the already huge U.S. merchandise trade deficit, and add to the already large toll of financial outflows and lost jobs. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (1/30/85)	156,782	– 728	+13,953
New York City (2/6/85)	33,293	– 467	+ 4,948
Commercial Paper (2/6/85)	244,621	+ 2,660	+55,483

Bank Loans

(Millions of Dollars)

Weekly Reporting Large Commercial Banks	Commercial and Industrial Loans: Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/30/85)	249,745	+ 187	+ 26,249
New York City (2/6/85)	61,945	+ 350	+ 3,409

	Total Loans and Leases Gross Adjusted: Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/30/85)	651,879	– 65	+ 66,280
New York City (2/6/85)	141,914	+ 1,830	+ 12,193

Financial Markets

	Friday 2/15/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.45%	– .04	– 1.07
180-Day Bills†	8.71	– .05	– 1.22
Longest Bills†	9.10	– .02	– 1.15
Recent Issues:			
$9^{3}/_{4}$s 1/31/87	9.98	– .02	
$10^{5}/_{8}$s 12/31/88	10.72	– .03	
$11^{1}/_{4}$s 2/15/95	11.40	+ .04	
$11^{1}/_{4}$s 2/15/15	11.35	+ .09	
Municipals:			
Bond Buyer–20 Bond Index* (2/14/85)	9.64%	+ .12	– .04
Blue List Total ($ Million)	$1,797	+ $174	+ $ 457
30-Day Visible Supply ($ Million)	$2,838	– $ 24	+ $ 752
Total	$4,635	+ $150	+ $1,209
Corporates:			
Moody's Aa Composite (2/14/85)	12.40%	–0–	– .28
30-Day Visible Supply ($ Million)	$ 995	+ $550	– $ 255
Stocks:			
Dow-Jones Averages:			
Industrials	1,282.02	– 7.95	+ 133.15
Transportation	629.21	– .88	+ 126.90
Utilities	150.85	+ .05	+ 26.19
65 Stocks	523.65	– 2.05	+ 73.74
Standard and Poor's 500 Stocks	181.60	– .59	+ 25.86
N.Y.S.E. Composite Index	105.27	– .12	+ 15.68
N.Y.S.E. Avg. Daily Vol. for Week (000's)	120,876	–12,594	+ 38,028

* 46% Taxable equivalent 17.85%.

† Bond equivalent.

International Rates

	Friday 2/15/85	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	8.50%	8.44%
1 month	8.50	8.75
3 month	8.88	9.13
6 month	9.38	9.44
1 year	9.94	10.13
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.25%	11.25%
Long Term (7 to 15 yrs.)	11.45	11.50

FOREIGN EXCHANGE SPOT RATES

New York Opening (2/15/85)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01524	65.6250
Canada	.7470	1.3386
Denmark	.08532	11.7200
France	.1001	9.9900
Germany	.3064	3.2642
Italy	.0004950	2020.00
Japan	.003892	256.95
Mexico	.004310	232.00
Netherlands	.2705	3.6963
Switzerland	.3604	2.7745
U.K.	1.1035	.9062

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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, FEBRUARY 25, 1985

VOLUME XXII, NUMBER 8

Chairman Volcker's Testimony . . .

In recent days, the attention of the financial markets has been riveted upon both the deliberations of the Federal Reserve's policy-setting Federal Open Market Committee and the Congressional testimony of Federal Reserve Chairman Paul A. Volcker, as they search for clues to the likely course of monetary policy. And, while the outcome of the recent FOMC meeting is not yet known, the testimony of Chairman Volcker is more straightforward—highlighting as usual Fed expectations of future business, price and financial market developments.

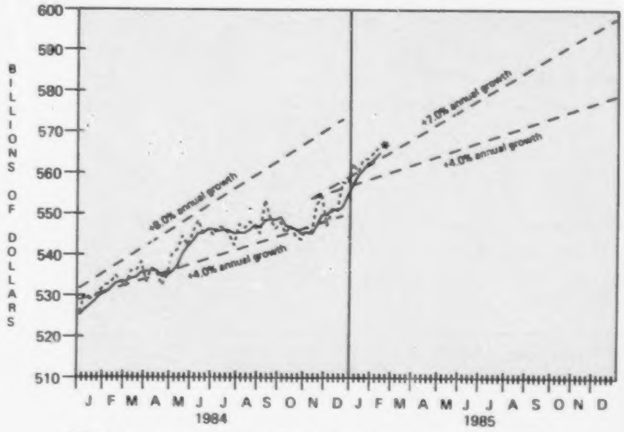
As in past years, the Fed Chairman cautioned against the persistence of exceptionally large Federal budget deficits and excessive money creation, not to mention the inflationary implications of both. But despite these warnings, there were few surprises in the testimony, reflecting the fact that the United States continues to enjoy a robust, non-inflationary business expansion.

Although the Fed's view of the economy is generally less upbeat than the Administration's—pointedly referring to several potential, longer-term problems—there are in fact few signs on the horizon which would suggest a termination of today's business expansion and/or an acceleration in the rate of inflation. For one thing, consumer sentiment remains too bright and personal incomes growth too strong for a prolonged pause in consumer spending. For another, inventory levels are still lean and hefty capital spending plans remain to be implemented. This suggests that the economy may well be on the threshold of faster, rather than slower growth. This notion has been enhanced in recent days by the release of statistics dealing with consumer spending, housing starts and building permits. Nor does inflation pose any imminent danger. With energy prices softening, the dollar remaining exceptionally strong in the foreign exchange markets and wages growth modest at best, it appears a good bet that even more progress in curbing inflation may be in the offing.

. . . Suggests That Monetary Policy . . .

With neither growth nor price concerns warranting any abrupt switch in the Fed's monetary policy, further policy initiatives—whether easing or tightening—will be put on hold for now. But other than a major change in the dollar's external value, one complication which could arise in this otherwise "serene" picture is the pronounced pickup in money supply growth in recent weeks. Although the Fed Chairman expressed his belief that as the year unfolds, "growth will slow consistent with the target ranges" (without stating, of course, the time limits to central bank tolerance of above-target money numbers or, for that matter, what would happen if those time limits are exceeded), in recent months the monetary aggregates have been expanding at rates not seen since mid-1983. So far, the central bank has been reluctant to undertake any direct action against these money supply bulges, especially with inflation rates so low and the foreign exchange market value of the dollar so strong.

MONEY SUPPLY, M1
FOUR-WEEK MOVING AVERAGE (LINE) VS. WEEKLY FIGURES (DOT)



* Break in series at January 7, 1985 due to delayed release of seasonal factors for 1984.

However, warnings of the undesirability of excessive money growth should be, and are, taken seriously in the financial markets. The growth of M1, for example, is clearly accelerating; over the past 15 weeks, it has surged at an annual rate in excess of 15 percent from its late-October low point (see chart). So, too, the growth rates of M2 and M3 have picked up, surpassing 13 percent, at an annual rate in January—well above any conceivable, interim growth targets. To be sure, one reason for today's above-

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target, M1 money numbers is the fact that the Fed undershot the midpoint of its 1984 target range. While this has prompted suggestions from some quarters that the Fed change the starting point for the growth of M1 this year if above-target money numbers are not to become a problem all year long, others remain less convinced that such a sleight of hand would be appropriate. These people believe that steps should be taken to curtail the rapid growth of bank reserves, money supply and total credit. For now, neither the base nor the M1 target range has been altered, but last fall's easing actions to stimulate money growth have been terminated.

. . . Will Not Change Anytime Soon

While control of money supply growth remains an important public policy objective, effective control of the Federal budget deficit remains elusive—a fact bemoaned by the Fed Chairman and credit markets alike, and one which continues to cloud the outlook for longer-run rates of inflation and interest. What is more, so much attention is now being focused on prospects for fiscal year 1986 that the massive size of the fiscal 1985 red-ink total, and the borrowing requirements to match, are often overlooked. With spending in general, and interest outlays in particular soaring, the budget deficit totaled a hefty $72 billion during the first quarter of fiscal 1985—$9 billion more than that amassed during the first quarter of fiscal 1984 and even larger than that posted during the first three months of fiscal 1983. At that time, Washington's deficit hit a record $195

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 2/20/85	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	166.269	+ .921	+ 9.060
Loans to Depository Inst.	.994	− .101	+ .360
Float	.966	+ .246	− .036
Total Reserve Bank Credit	179.662	+ .112	+12.857
Treasury Deposits with Federal Reserve Banks	3.819	− .978	− 1.045
Currency in Circulation	178.700	+ .221	+11.273
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	117.145	+ .919	+ .495
Member Bank Reserves:	2/13/85		
Total Reserves Held	40.541	+ .168	+ 2.977
Excess (Deficiency)	1.022	+ .243	− .172
Net Free Reserves	.724	+ .399	+ .184
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M1 (2/11/85)	567.4	‡	‡
M2 (January '85)	2,400.1	+ 14.0	+ 9.0
M3 (January '85)	3,027.9	+ 14.0	+ 11.3
Domestic Nonfinancial Debt (3rd Q'84)	5,760.0	+ 11.7	+ 12.9

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Data unavailable due to revisions.

New York Money Market

Offering Rates 2/22/85	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	8.35%	8.48%	8.60%
* Federal Agencies	8.53	9.09	9.39
* Project Notes—Taxfree (46% Taxable Equivalent)	7.87	8.33	8.61
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.85	9.30	10.00

‡Finance Company Paper—Prime	
5- 14 days	8.40%
15- 29 days	8.45
30- 59 days	8.50
60- 89 days	8.55
90-179 days	8.58
180-239 days	8.65
240-270 days	8.65

‡* Bankers' Acceptances	
Mar.	8.70%
Apr.	8.75
May	8.85
Jun.	8.90
Jul.	8.95
Aug.	8.95

‡Industrial Paper—Prime	
30- 89 days	8.53%
90-120 days	8.55

†Federal Funds Effective Rate 8.50%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'84	$ 3,764r	$ 3,695	$ 3,432
Gross National Product (1972 Dollars)*	4th Q'84	$ 1,665r	$ 1,645	$ 1,573
Percent Change, Annual Rate	4th Q'84	4.9r	1.6	5.9
Change in Consumer Prices*	Dec '84	2.4%	2.4%	2.4%
Change in Producer Prices*	Jan '85	0.0%	2.4%	8.4%
Civilian Employment (Thousands of Persons)†	Jan '85	106,391	106,273	103,294
Unemployment as % of Civilian Labor Force†	Jan '85	7.4%	7.2%	8.0%
Personal Income*	Jan '85n	$ 3,130	$ 3,114r	$ 2,897
Leading Indicators Composite Index (1967=100)†	Dec '84	164.9	165.2	163.4
Industrial Production Index (1967=100) †	Jan '85	166.6	165.9	158.5
Net Change in Consumer Installment Credit †	Dec '84	$ 6.95	$ 7.95	$ 5.78
U.S. Merchandise Trade Balance †	Dec '84	−$ 8.20	−$ 9.94	−$ 6.74
Plant and Equipment Expenditures*	1st Q'85	$337.85(a)	$321.40(a)	$293.15
Private Housing Starts (Thousands of Units)*	Jan '85n	1,833	1,595r	1,933r
New Construction Expenditures*	Dec '84	$ 318.7	$ 316.0	$ 263.9
Total Business Inventories †	Dec '84	$ 566.5	$ 565.0	$ 514.3
Total Business Sales †	Dec '84	$ 416.9	$ 414.5	$ 395.7

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

billion for the entire fiscal year, and it appears a good bet that a new record is within reach this year.

Although narrowing the Federal deficit remains a top priority of the Administration, achieving this objective will be quite difficult, especially in light of the facts that tax increases have been ruled out, Social Security is considered virtually untouchable, only modest defense cuts can be expected and nothing can be done about the rapid rise in interest costs. Indeed, if a credible deficit reduction program is not put in place soon, soaring interest outlays alone may ensure that 12-digit budget deficits become a permanent feature of the U.S. financial landscape. And, as Chairman Volcker pointed out, with economy-wide credit growth continuing to outrun the rate of expansion of the overall economy, potentially damaging inflation rate consequences could result.

Thus, with the economy expanding briskly, fears of a so-called "growth recession" virtually buried, money growth accelerating and little substantive action being taken so far to produce a credible deficit reduction program, the Fed is going to put further loosening initiatives on hold. This will probably preclude further declines in short-term interest rates for now. And as the expansion of economy-wide credit demands gets under way in earnest later this year, it would seem as though higher, rather than lower rates are in store.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (2/6/85)	156,344	– 392	+14,535
New York City (2/13/85)	33,139	– 154	+ 4,540
Commercial Paper (2/13/85)	245,637	+ 1,016	+56,664

Bank Loans

(Millions of Dollars)

	Commercial and Industrial Loans		
Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/6/85)	251,809	+ 2,057	+ 26,861
New York City (2/13/85)	62,136	+ 191	+ 4,374

	Total Loans and Leases Gross Adjusted		
	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/6/85)	655,457	+ 3,561	+ 72,430
New York City (2/13/85)	141,590	– 243	+ 8,407

Financial Markets

	Friday 2/22/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.66%	+ .21	– .44
180-Day Bills†	9.02	+ .31	– .24
Longest Bills†	9.42	+ .32	+ .12
Recent Issues:			
10s 2/28/87 (When Issued)	10.37	NA	
$10\frac{5}{8}$s 12/31/88	11.09	+ .37	
$11\frac{1}{4}$s 2/15/95	11.76	+ .36	
$11\frac{1}{4}$s 2/15/15	11.70	+ .35	
Municipals:			
Bond Buyer–20 Bond Index* (2/21/85)	9.71%	+ .07	– .09
Blue List Total ($ Million)	$1,972	+ $175	+ $ 556
30-Day Visible Supply ($ Million)	$2,674	– $164	+ $ 754
Total	$4,646	+ $ 11	+ $1,310
Corporates:			
Moody's Aa Composite (2/21/85)	12.61%	+ .21	– .18
30-Day Visible Supply ($ Million)	$1,345	+ $350	– $1,795
Stocks:			
Dow-Jones Averages:			
Industrials	1,275.84	– 6.18	+ 110.74
Transportation	625.11	– 4.10	+ 114.22
Utilities	149.67	– 1.18	+ 24.62
65 Stocks	520.65	– 3.00	+ 64.70
Standard and Poor's 500 Stocks	179.36	– 2.24	+ 21.85
N.Y.S.E. Composite Index	104.01	– 1.26	+ 13.52
N.Y.S.E. Avg. Daily Vol. for Week (000's)	101,580	–19,296	+ 10,222

* 46% Taxable equivalent 17.98%.

† Bond equivalent.

International Rates

	Friday 2/22/85	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	8.50%	8.50%
1 month	8.81	8.50
3 month	9.31	8.88
6 month	9.81	9.38
1 year	10.56	9.94
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.65%	11.25%
Long Term (7 to 15 yrs.)	11.75	11.45

FOREIGN EXCHANGE SPOT RATES		
New York Opening (2/22/85)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.01471	67.9850
Canada	.7273	1.3750
Denmark	.08292	12.0600
France	.09676	10.3350
Germany	.2959	3.3790
Italy	.0004755	2103.00
Japan	.003808	262.60
Mexico	.004202	238.00
Netherlands	.2610	3.8310
Switzerland	.3509	2.8495
U.K.	1.0783	.9274

Manufacturers Hanover completes another record year.

Extracted from a letter to shareholders by John F. McGillicuddy, Chairman.

"I am very pleased to report that our corporation's earnings reached a new high in 1984. In fact, our net income of $352.5 million represents this institution's 12th consecutive year of record results.

"Fourth quarter earnings totalled $106.2 million, an increase of 23 percent over last year's fourth quarter. Even more significant was the fact that our earnings per share for this period reached $2.14 up from $2.13 a year ago and $1.69 in the third quarter of 1984. This means that the dilution resulting from the issuance of common and preferred stock—both related to the acquisition of CIT Financial Corporation—has been reversed, and in only nine month's time.

"A major factor in this reversal was that CIT's performance more than lived up to expectations. Since it was acquired on May 1st, CIT has contributed $31.7 million to our bottom line—that, after all charges for interest-related financing costs and the amortization of the purchase premium. On a pro forma basis, had CIT been with us for the full year instead of only eight months, it would have contributed approximately $45 million. We expect CIT will contribute at an even higher level in 1985.

"Other highlights of the year worth noting include:

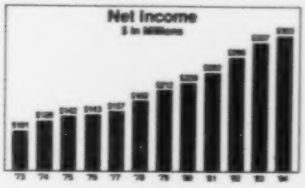
"A 35.7 percent increase in primary capital, up $1.2 billion to $4.4 billion. This brought our ratio of primary capital to assets to 5.77 percent, up from 5.01 percent a year ago. In the past three years, we have added $2.2 billion to our primary capital base.

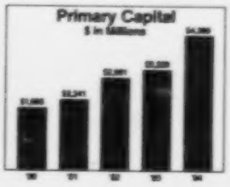
"A $198 million addition to our reserve for possible loan losses. This 45.8 percent increase in our reserves came after absorbing a record $259.2 million in net loan charge-offs. This means that despite the impact of a grossly uneven economic recovery, both at home and abroad, we were able to absorb our losses out of current earnings even as we bolstered our reserve by an additional $198 million. At year's end, our reserve totaled $630.7 million, representing a ratio of reserves to total loans of 1.08 percent, up from .90 percent a year ago.

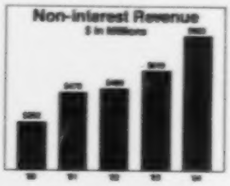
"A 33 percent increase in other operating income to $823 million. This $204 million improvement means that we continue to derive an ever-growing share of our revenues from fee-based services that make little or no claim on our capital ratios. Improvements came in virtually all sectors of our business, but were particularly strong in the areas of foreign exchange trading, securities trading and investment banking.

"On the international scene, progress continued to be made during the year, with a major debt restructuring for Mexico and with Argentina reaching agreement with the International Monetary Fund and major creditor banks. The result was a partial payment of past-due interest by Argentina at year's end. Despite this payment, our earnings for the year were reduced by $36.3 million after-tax by the impact of certain nonaccrual Argentine loans.

"Our strong performance in the fourth quarter, particularly given the challenges we faced, provides us with a great deal of momentum as we enter 1985."







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The Manufacturers Hanover Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, MARCH 4, 1985
VOLUME XXII, NUMBER 9

The Big Apple's Good Times . . .

New York City's economy prospered in 1984. With more than 3.4 million jobs, the City's employment was at its highest level in a decade. A record 80,000 new jobs were created with employment gains across the entire spectrum of industries. While the largest chunk of these gains was in industries closely related to the City's position as a national and international center of business, finance and services, manufacturing—long an ailing sector of the City's economy—posted an increase of over 1,600 jobs as well, reversing a long decline in the City's factory jobs.

The City's prosperity last year was not limited to Manhattan. Although much of the post-1977 employment growth has been centered primarily in Manhattan and in large firms, in 1984 new jobs were created in all five boroughs, and small businesses participated in the City's job growth to a greater extent than in previous years.

According to the U.S. Department of Labor, small establishments—firms having fewer than 100 employees—provided two-fifths of the City's new private sector jobs last year. In contrast, small firms accounted for less than one-tenth of the new jobs created in the prior five years. This ability of small businesses to generate new jobs is particularly important since they account for 98 percent of all establishments in the City and 46 percent of all private sector employment. Moreover, small businesses are a big source of innovation, new designs, product lines and ideas. As these firms grow, they spin off a number of other activities, in turn generating more jobs and income in other sectors.

The composition of the City's employment growth has also changed from previous years. Between 1978 and 1982, banking, finance, insurance, real estate and other services provided the strongest increase in new job creation, but this is no longer true. The banking sector, for example, hired an average of 9,000 people annually from 1979 to 1982; in the past two years, however, New York City banks generated a total of only 2,500 new positions. On the other hand, employment in retail and wholesale trade which had shrunk almost 20 percent in the last two decades, rebounded with an increase of more than 18,000 new jobs in 1984. At the same time, all levels of government once again began adding to their payrolls as the City's and the State's financial difficulties eased.

. . . Are Shared By All Boroughs . . .

As every commuter knows, New York City draws its labor force from the entire metropolitan region, encompassing 22 counties of New York, New Jersey and Connecticut. However, City residents benefited from the improved employment opportunities in 1984 to a greater extent than in prior years, when the bulk of new jobs was filled by commuters. Almost 50,000 more City residents found work last year, whereas in the two preceding years the number of residents working declined by almost 76,000. The 1984 increase in employment was spread throughout all five boroughs. Almost 12,000 Brooklynites found jobs as did 10,000 residents in Queens, 8,000 in Manhattan, 6,000 from the Bronx and 2,000 people living in Staten Island. As a result, the City's jobless rate fell to 8.9 percent of the labor force in 1984 from 9.4 percent a year earlier. It remained, however, well above the 7.4 percent unemployment rate for the country as a whole, and 271,000 New Yorkers were still unable to find employment.

Another contributor to New York City's well-being is the significant progress made in the reform of its fiscal practices. The City is now operating with its fifth budget balanced under the strictest of accounting rules. Indeed, New York City's current economic prosperity and fiscal stability stand in sharp contrast with the painful fiscal crises encountered in the mid-1970s. At that time, total employment declined at a rate of about 64,000 jobs a year, residents fled to the suburbs, and many businesses relocated their headquarters to areas where land, construction costs and tax rates were more attractive. New York was viewed as too big and too old to accommodate the demands of modern society and business. The unemployment rate surged to 11.2 percent in 1975—a trend which was not reversed even by the strong national recovery which followed the 1973-75 recession.

By 1977, the City's economy began to turn around in the areas where it had a competitive advantage.

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Some of the same factors that contributed to New York's economic problems began to be viewed as unique economic advantages. For example, the suburbs which had drained some of the City's population, became a huge marketplace within a radius of 60 miles—inhabited by 20 million people with a total buying power of some $150 billion a year.

. . . And Most Industries

Fueled by the growth of the banking, securities and insurance industries, the City's economic resurgence began in earnest in the late 1970s. Since 1977, the number of private sector jobs in the City has risen by 217,000. This is the strongest increase in the level of private sector employment during the two decades of available data.

These developments occurred in the face of the general belief that New York City is a very expensive place to do business. But despite its high costs, New York City ranks as the most desirable business center when compared with other large metropolitan areas across the country. A recent study conducted by a major real estate concern found that New York City offers business the greatest diversity of any large American city in a number of areas—markets, services, opportunities, as

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

Reserve Bank Credit	Week Ending 2/27/85	$ Change Since Week Ago	$ Change Since Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	165.961	– .308	+ 9.720
Loans to Depository Inst.	1.354	+ .360	+ .847
Float	1.632	+ .666	+ .095
Total Reserve Bank Credit	180.290	+ .628	+13.882
Treasury Deposits with Federal Reserve Banks	4.038	+ .219	– .377
Currency in Circulation	178.134	– .566	+11.138
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	116.415	– .730	– 2.976
Member Bank Reserves:	2/27/85		
Total Reserves Held	39.635	– .516	+ 3.666
Excess (Deficiency)	.820	– .172	+ .099
Net Free Reserves	.223	– .471	– .116

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (2/18/85)	569.3	‡	‡
M2 (January '85)	2,399.4	+ 13.9	+ 9.0
M3 (January '85)	3,027.1	+ 13.9	+ 11.3
Domestic Nonfinancial Debt (4th Q'84)	5,970.8	+ 14.4	+ 13.6

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Data unavailable due to revisions.

New York Money Market

Offering Rates 3/1/85	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	8.54%	8.81%	8.97%
* Federal Agencies	8.60	9.04	9.90
* Project Notes—Taxfree (46% Taxable Equivalent)	7.96	8.33	8.70
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	9.15	9.85	10.60

‡ Finance Company Paper—Prime	
5- 14 days	8.55%
15- 29 days	8.60
30- 59 days	8.80
60- 89 days	8.90
90-179 days	9.08
180-239 days	9.30
240-270 days	9.40

‡* Bankers' Acceptances	
Apr.	8.60%
May	8.75
Jun.	8.90
Jul.	9.20
Aug.	9.30
Sep.	9.20

‡ Industrial Paper—Prime	
30- 89 days	8.70%
90-120 days	8.75

†Federal Funds	
Effective Rate	8.75%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'84	$ 3,764	$ 3,695	$ 3,432
Gross National Product (1972 Dollars)*	4th Q'84	$ 1,665	$ 1,645	$ 1,573
Percent Change, Annual Rate	4th Q'84	4.9	1.6	5.9
Change in Consumer Prices*	Jan '85n	2.4%	3.6% r	7.2%
Change in Producer Prices*	Jan '85	0.0%	2.4%	8.4%
Civilian Employment (Thousands of Persons) †	Jan '85	106,391	106,273	103,294
Unemployment as % of Civilian Labor Force †	Jan '85	7.4%	7.2%	8.0%
Personal Income*	Jan '85	$ 3,130	$ 3,114	$ 2,897
Leading Indicators Composite Index (1967=100) †	Jan '85n	166.7	163.9r	164.5
Industrial Production Index (1967=100) †	Jan '85	166.6	165.9	158.5
Net Change in Consumer Installment Credit †	Dec '84	$ 6.95	$ 7.95	$ 5.78
U.S. Merchandise Trade Balance †	Jan '85n	–$ 10.29	–$ 8.03r	–$ 9.51
Plant and Equipment Expenditures*	1st Q'85	$337.85(a)	$321.40(a)	$293.15
Private Housing Starts (Thousands of Units)*	Jan '85	1,833	1,595	1,933
New Construction Expenditures*	Jan '85n	$ 324.9	$ 318.4r	$ 280.9
Total Business Inventories †	Dec '84	$ 566.5	$ 565.0	$ 514.3
Total Business Sales †	Dec '84	$ 416.9	$ 414.5	$ 395.7

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

well as an incomparable variety of entertainment and a comprehensive transportation system.

The dramatic improvement in employment was mirrored by other key developments in the City. There is a continuing boom in the office construction and for good reason: Over 27 million square feet of office space were leased in 1984, 32 percent more than in the previous year. The midtown and downtown Manhattan areas rank first and second, respectively, as the nation's tightest office space markets.

What is more, the growth of air travel—a result of the relative decline in its costs because of declining oil prices and the deregulation of the air transportation industry—has been a boon to the region's airports. Total air passenger traffic passing through the Metro-area airports increased by 17 percent in the first three quarters of 1984 compared with the same period in 1983. The City hosted almost two million visitors from abroad who, together with American tourists, helped to push hotel occupancy rates to 75.1 percent in 1984 from 72.3 percent a year earlier and to boost sales by City retailers from $23.9 billion in the January-November period in 1983 to $25.8 billion in the comparable period of last year.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (2/13/85)	156,179	+ 70	+14,526
New York City (2/20/85)	33,371	+ 232	+ 5,010
Commercial Paper (2/20/85)	248,007	+ 2,412	+57,382

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/13/85)	252,130	+ 201	+ 27,384
New York City (2/20/85)	61,525	− 426	+ 3,519

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/13/85)	655,612	− 34	+ 67,525
New York City (2/20/85)	141,205	− 264	+ 8,229

Financial Markets

	Friday 3/1/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.85%	+ .19	− .30
180-Day Bills†	9.34	+ .32	+ .09
Longest Bills†	9.75	+ .33	+ .45
Recent Issues:			
10s 2/28/87	10.70	+ .33	
10⅝s 12/31/88	11.35	+ .26	
11¼s 2/15/95	11.93	+ .17	
11¼s 2/15/15	11.90	+ .20	
Municipals:			
Bond Buyer—20 Bond Index* (2/28/85)	9.71%	−0−	− .15
Blue List Total ($ Million)	$1,839	− $133	+ $ 449
30-Day Visible Supply ($ Million)	$3,033	+ $359	+ $ 768
Total	$4,872	+ $226	+ $1,217
Corporates:			
Moody's Aa Composite (2/28/85)	12.76%	+ .15	− .23
30-Day Visible Supply ($ Million)	$1,490	+ $145	− $1,650
Stocks:			
Dow-Jones Averages:			
Industrials	1,299.36	+ 23.52	+ 127.88
Transportation	635.30	+ 10.19	+ 114.72
Utilities	148.80	− .87	+ 19.42
65 Stocks	528.11	+ 7.46	+ 66.17
Standard and Poor's 500 Stocks	183.23	+ 3.87	+ 23.99
N.Y.S.E. Composite Index	106.04	+ 2.03	+ 14.37
N.Y.S.E. Avg. Daily Vol. for Week (000's)	110,586	+ 9,006	+ 15,848

* 46% Taxable equivalent 17.98%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 3/1/85	Week Ago
Overnight	8.63%	8.50%
1 month	8.88	8.81
3 month	9.50	9.31
6 month	10.13	9.81
1 year	10.81	10.56
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.75%	11.65%
Long Term (7 to 15 yrs.)	11.90	11.75

FOREIGN EXCHANGE SPOT RATES

New York Opening (3/1/85)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01486	67.3000
Canada	.7214	1.3861
Denmark	.08368	11.9500
France	.09775	10.2300
Germany	.2985	3.3505
Italy	.0004802	2082.50
Japan	.003830	261.08
Mexico	.004167	240.00
Netherlands	.2639	3.7895
Switzerland	.3490	2.8650
U.K.	1.0712	.9335

Woodcut illustration from Columbus' letter to the Spanish Court, 1493

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The Manufacturers Hanover
Financial Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, MARCH 11, 1985
VOLUME XXII, NUMBER 10

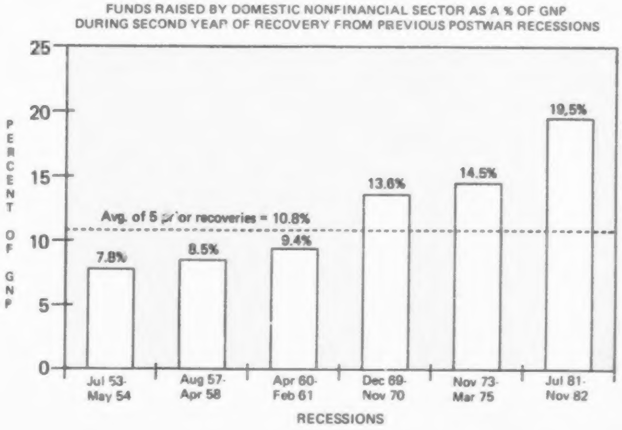
Swelling Credit Demands . . .

One of the more important determinants of the interest rate outlook this year will be the strength of economy-wide credit demands. At this stage of the business cycle, it is not unusual for credit needs to surge sharply higher, reflecting a widening gap between business spending and internal cash flow as well as stepped-up borrowings by households to finance everything from new homes to new furniture. This year, however, total credit needs are going to be pushed to abnormally lofty heights by Washington's apparently insatiable, and growing credit appetite. There are virtually no prospects that the current fiscal year red-ink total—which has been largely neglected in all the debates over cutting next year's Federal deficit—will be lower than the $175 billion deficit posted in fiscal 1984. What this does is set the stage for higher, rather than lower interest rates as 1985 unfolds—assuming, of course, that the Federal Reserve refuses to accommodate fully emerging household, business and Federal credit demands.

The shape of this year's credit market outlook was being set last quarter—and for those expecting further interest rate relief, the news was not good. According to the Federal Reserve, credit demands economy-wide soared after experiencing something of a growth pause in the third quarter. Borrowings by the domestic nonfinancial sectors—households, businesses and government—surged at an almost 14½ percent seasonally adjusted annual rate in the fourth quarter. Not surprisingly, with the Federal red-ink total hitting a quarterly record of $72 billion during the period, Washington's borrowings paced, but were not solely responsible for the upturn. Household and business borrowings also rose briskly, with quarter-over-quarter growth rates firmly riveted in double-digit territory. Against this backdrop, Federal Reserve Chairman Paul A. Volcker testified before Congress that the central bank's easing initiatives of last fall had come to an end (Financial Digest—February 25, 1985)—a one-two punch which set the stage for the reversal of the downward trend in interest rates.

. . . Could Set The Stage . . .

Nor is there much hope for any quick change in this situation. For one thing, the Federal deficit, and Washington's borrowing requirements, are seemingly locked into 12-digit territory. With interest and defense outlays rising rapidly, and attention not even focused on the current fiscal year, the persistence of double-digit rates of Federal debt growth are increasingly a good bet. For another, with today's business expansion remaining on track, household and business borrowings are unlikely to fade anytime soon.


FUNDS RAISED BY DOMESTIC NONFINANCIAL SECTOR AS A % OF GNP DURING SECOND YEAR OF RECOVERY FROM PREVIOUS POSTWAR RECESSIONS

Take, for example, the consumer. Household borrowings rose at an annual rate just a shade less than those of Washington in the fourth quarter, as consumers continued to acquire large amounts of both installment and mortgage debt. And not only was the pace of consumer borrowing not far from that of the Federal government, it was also close to that of the late 1970s—when a soaring rate of inflation was swelling credit needs in general, and consumers went on a buying and borrowing binge in order to protect themselves against the rapid escalation of prices. One result of recent developments is that the ratio of outstanding installment debt to disposable income is getting back to levels last seen in the late 1970s, possibly suggesting that the pace of consumer borrowings will soon have to slow if for no other reason than

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that the consumer is becoming overextended.

However, this may not be the case. For with both personal income tax rates lowered and inflation rates diminished, real household disposable income—what's left over after taxes and with the effects of inflation netted out—rose last year at its fastest rate since the early 1960s. This gave consumers not only the opportunity to use their fatter incomes to step up spending, but also to add to their financial assets. Over the past two years, in fact, household financial assets have soared by nearly $1 trillion (about a fifth of which was due to rising stock prices). With incomes and assets growing, even the hefty acquisition of mortgage and installment debt in recent months does not necessarily indicate a retrenchment by consumers is at hand. They now possess about $2.25 of financial assets for each $1 of debt outstanding, or 11 percent better than the early 1980 low point. Indeed, just lowering the assets-to-debt ratio back to where it stood in early 1980 would allow for almost 12½ months of borrowing at last year's breakneck pace—even if there was no additional financial asset accumulation!

. . . For Rising Interest Rates

So, too, a retrenchment in the pace of business borrowings is equally unlikely. With business spending for inventories, plant and equipment still running far ahead of cash flow and the pace of mergers and leveraged buyouts robust, business borrowings advanced at a hefty 12.3 percent annual

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

		$ Change Since	
	Week Ending 3/6/85	Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	168.463	+ 2.502	+10.699
Loans to Depository Inst.	1.691	+ .337	+ 1.198
Float	.829	– .795	+ .370
Total Reserve Bank Credit	182.197	+ 1.879	+15.112
Treasury Deposits with Federal Reserve Banks	3.364	– .674	– .193
Currency in Circulation	178.553	+ .419	+10.975
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	115.296	– 1.119	– 2.674
	2/27/85		
Member Bank Reserves:			
Total Reserves Held	39.558	– .605	+ 3.589
Excess (Deficiency)	.751	– .256	+ .030
Net Free Reserves	.154	– .555	– .185
		% Change Since	
Monetary Aggregates †		Three Months Ago*	Year Ago
M1 (2/25/85)	572.7	‡	‡
M2 (January '85)	2,399.5	+ 13.9	+ 9.0
M3 (January '85)	3,022.4	+ 13.3	+ 11.1
Domestic Nonfinancial Debt (4th Q'84)	5,970.8	+ 14.4	+ 13.6

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Data unavailable due to revisions.

New York Money Market

Offering Rates 3/8/85	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	8.61%	8.87%	9.00%
* Federal Agencies	8.90	9.65	10.04
* Project Notes—Taxfree (46% Taxable Equivalent)	7.87	8.61	9.72
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	9.20	9.75	10.45

‡ Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	8.60%	Apr.	8.90%
15- 29 days	8.60	May	9.05
30- 59 days	8.80	Jun.	9.15
60- 89 days	8.90	Jul.	9.40
90-179 days	9.10	Aug.	9.45
180-239 days	9.40	Sep.	9.45
240-270 days	9.40		

‡ Industrial Paper—Prime			
30- 89 days	8.80%	† Federal Funds	
90-120 days	8.95	Effective Rate	8.45%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'84	$ 3,764	$ 3,695	$ 3,432
Gross National Product (1972 Dollars)*	4th Q'84	$ 1,665	$ 1,645	$ 1,573
Percent Change, Annual Rate	4th Q'84	4.9	1.6	5.9
Change in Consumer Prices*	Jan '85	2.4%	3.6%	7.2%
Change in Producer Prices*	Jan '85	0.0%	2.4%	8.4%
Civilian Employment (Thousands of Persons)†	Feb '85n	106,685	106,391	103,888
Unemployment as % of Civilian Labor Force†	Feb '85n	7.3%	7.4%	7.8%
Personal Income*	Jan '85	$ 3,130	$ 3,114	$ 2,897
Leading Indicators Composite Index (1967=100)†	Jan '85	166.7	163.9	164.5
Industrial Production Index (1967=100) †	Jan '85	166.6	165.9	158.5
Net Change in Consumer Installment Credit †	Dec '84	$ 6.95	$ 7.95	$ 5.78
U.S. Merchandise Trade Balance †	Jan '85	–$ 10.29	–$ 8.03	–$ 9.51
Plant and Equipment Expenditures*	1st Q'85	$337.85(a)	$321.40(a)	$293.15
Private Housing Starts (Thousands of Units)*	Jan '85	1,833	1,595	1,933
New Construction Expenditures*	Jan '85	$ 324.9	$ 318.4	$ 280.9
Total Business Inventories †	Dec '84	$ 566.5	$ 565.0	$ 514.3
Total Business Sales †	Dec '84	$ 416.9	$ 414.5	$ 395.7

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

rate in the fourth quarter, and at an even faster 13.3 percent rate during the year as a whole. While such borrowings did not place upward pressures on interest rates in recent months—dispersed as they were over a variety of debt instruments both here and, increasingly abroad—if they persist at such a lofty level for long and/or foreigners begin to lose some of their appetite for dollar-denominated corporate debt instruments, this situation could change, and quickly.

Which again raises the issue of the importance of foreign capital inflows to credit market stability—as many things do these days. For despite the fact that the level of funds raised in the credit markets last year by the domestic nonfinancial sector expressed as a percentage of gross national product reached a record high not only for this stage of the business cycle (see chart on page 1), but, also, for any year in the entire postwar period—and actually moved higher still in the fourth quarter—short- and long-term interest rates ended the year on a lower note than when it began. Two developments provide the explanation: First, a switch in the Fed's policy stance toward ease last fall and second, the rising level of net private capital inflows from abroad. These reached the equivalent of just about 13 percent of all funds raised in the credit markets by the nonfinancial sector in 1984—a record high proportion. The previous record: Set just one year earlier at eight percent.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (2/20/85)	155,400	– 723	+13,407
New York City (2/27/85)	33,519	+ 152	+ 4,802
Commercial Paper (2/27/85)	247,202	– 847	+56,053

Bank Loans

(Millions of Dollars)

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
	Commercial and Industrial Loans		
Nationwide (2/20/85)	252,965	+ 1,035	+ 27,058
New York City (2/27/85)	61,962	+ 419	+ 2,418
	Total Loans and Leases Gross Adjusted		
Nationwide (2/20/85)	658,155	+ 2,876	+ 69,571
New York City (2/27/85)	141,924	+ 560	+ 9,067

Financial Markets

	Friday 3/8/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.86%	+ .01	– .84
180-Day Bills†	9.36	+ .02	– .74
Longest Bills†	9.71	– .04	– .69
Recent Issues:			
10s 2/28/87	10.55	– .15	
$10\frac{5}{8}$s 12/31/88	11.19	– .16	
$11\frac{1}{4}$s 2/15/95	11.71	– .22	
$11\frac{1}{4}$s 2/15/15	11.71	– .19	
Municipals:			
Bond Buyer—20 Bond Index* (3/7/85)	9.75%	+ .04	– .19
Blue List Total ($ Million)	$1,715	– $124	+ $ 379
30-Day Visible Supply ($ Million)	$3,443	+ $410	+ $ 786
Total	$5,158	+ $286	+ $1,165
Corporates:			
Moody's Aa Composite (3/7/85)	12.85%	+ .09	– .29
30-Day Visible Supply ($ Million)	$1,380	– $110	– $1,995
Stocks:			
Dow-Jones Averages:			
Industrials	1,269.66	– 29.70	+ 129.90
Transportation	615.37	– 19.93	+ 116.91
Utilities	147.77	– 1.03	+ 21.85
65 Stocks	515.97	– 12.14	+ 68.42
Standard and Poor's 500 Stocks	179.10	– 4.13	+ 24.75
N.Y.S.E. Composite Index	103.82	– 2.22	+ 14.88
N.Y.S.E. Avg. Daily Vol. for Week (000's)	108,942	– 1,644	+ 29,438

* 46% Taxable equivalent 18.06%.

† Bond equivalent.

International Rates

	Friday 3/8/85	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	8.44%	8.63%
1 month	9.00	8.88
3 month	9.56	9.50
6 month	10.25	10.13
1 year	11.06	10.81
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.00%	11.75%
Long Term (7 to 15 yrs.)	12.30	11.90

FOREIGN EXCHANGE SPOT RATES New York Opening (3/8/85)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01453	68.8250
Canada	.7137	1.4012
Denmark	.08275	12.0850
France	.09557	10.4630
Germany	.2939	3.4025
Italy	.0004697	2129.00
Japan	.003822	261.67
Mexico	.004107	243.50
Netherlands	.2588	3.8640
Switzerland	.3427	2.9180
U.K.	1.0630	.9407

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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, MARCH 18, 1985
VOLUME XXII, NUMBER 11

The Baby Boom . . .

For most retailers, 1984 sales fell short of expectations. Lackluster demand and fierce price cutting held sales to a 7.3 percent advance, year-over-year in December, 1984, following a hefty 11.5 percent increase a year earlier. But not all retailers posted disappointing results. For example, juvenile products have been registering blockbuster sales for more than five years now, thanks primarily to the recent rebound in the number of babies born.

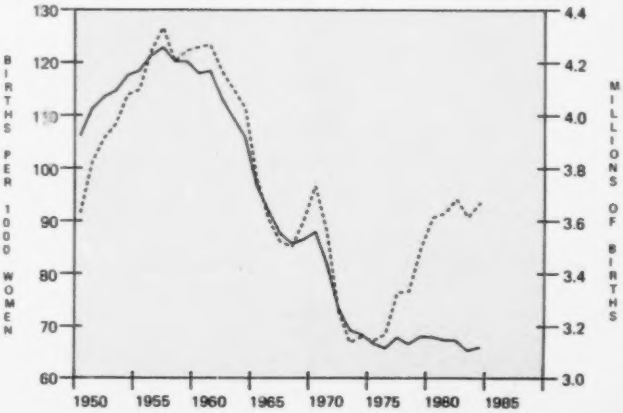
To be sure, this baby boomlet is fundamentally different from the baby boom of the 1950s. The average number of children born to women during their lifetime—1.8—is now less than one-half that of the late 1950s when it peaked at 3.7 and it is still well below the rates of the 1960s. In fact, the fertility rate (the number of babies born per 1,000 women of childbearing age) has not changed for more than a decade (see chart). Rather, the rise in the number of babies is a result of the sharply increased number of potential parents, as the baby boomers of the 1950s mature. While it took only 35 million women of childbearing age to have 4.3 million babies in 1957, 1984 required more than 55 million women to produce 3.7 million babies.

On average, there have been about 3.7 million babies born every year since 1981, the highest three-year average since the mid-1960s. Importantly, many women who had postponed childbearing are having babies now. More young women in their late 20s and early 30s are having second thoughts about earlier decisions not to have children. But even as more women have decided to become mothers, many are not giving up their careers and are quickly returning to the labor force. Today, nearly half of all mothers of children under three years old are in the labor force, compared with only 16 percent 25 years ago. Already, there is large demand for child care and since the Census Bureau is forecasting a 4.4 percent rise in the number of pre-school children in the second half of this decade, the need for day-care and nursery schools will grow further.

. . . Bounces Back . . .

But while the number of babies born to women in their 20s still outnumbers those with mothers in their 30s by more than three to one, the fertility rate for women 30 to 34 years old has posted a sharp turnaround. After an almost 20-year decline, it rose from 53.1 in 1975 to 64.3 in 1984—the sharpest increase of any age group. As a result, the average age of a new mother has risen to 23.2, from 21.8 years 25 years ago. As you might expect, this has forced people to wait to become grandparents. And with life expectancy increasing, there are more grandparents around today than 30 years ago—with half as many grandchildren. Studies indicate that purchases by grandparents account for a significant share of spending on children in their first year of life.

FERTILITY RATE (LINE) VS. NUMBER OF LIVE BIRTHS (DOT)



Since today's mothers have waited longer to have children and are having fewer of them, while many are bringing a baby into a two-income family, they are willing and able to pay a premium for quality, style and convenience. This has already benefited manufacturers and retailers of maternity clothes, baby care products, children's clothing, furniture and books, among many others. The economic power of the current boomlet has been further enhanced by the high percentage of firstborns among total births. Back in 1960, when there were 4.3 million babies born, only about one-quarter of them were the firstborns in the family. Last year when 3.7 million babies were born, more than 40 percent of them were first children. Parents, grandparents and relatives tend to spend more on firstborns than they do on subsequent children who frequently inherit hand-me-downs from their older siblings.

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. . . Boosting Business

According to the Juvenile Products Manufacturers Association, purchases of juvenile furniture and accessories have expanded by an estimated 20 percent per year since 1979—rising from about $700 million to an estimated $1.5 billion in 1984. This has occurred despite two recessions—when most other industries were grateful for maintaining sales levels. What is more, the Consumer Products Safety Commission now says that many older cribs and playpens are no longer safe, compelling new parents to buy the latest models rather than relying on hand-me-downs. The new car safety laws are boosting sales, too. In many states, car seats have recently become mandatory for young children, causing unit sales to nearly double between 1981 and 1983 (latest available).

While today's mothers are more affluent and better educated than ever before, they have less time to spend at home. As a result, they look for toys that, in their absence, can develop and educate as well as entertain the little one. Thus, educational toys are selling very well and sales of "Baby Lit"—a new term recently coined by the publishing industry for books aimed at children two months to three years—are going through the roof. Sales of these books are believed to have quadrupled since 1980. By contrast, sales of books other than children's have advanced 55 percent during the period.

With stepped-up emphasis on convenience, sales of

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

Reserve Bank Credit	Week Ending 3/13/85	$ Change Since Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	167.487	– .976	+ 9.703
Loans to Depository Inst.	2.038	+ .347	+ 1.152
Float	.523	– .306	– 1.252
Total Reserve Bank Credit	181.495	– .702	+12.467
Treasury Deposits with Federal Reserve Banks	4.061	+ .697	+ 1.236
Currency in Circulation	179.427	+ .874	+10.829
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	114.354	– .942	– 2.291
	3/13/85		
Member Bank Reserves:			
Total Reserves Held	40.178	+ .600	+ 3.438
Excess (Deficiency)	.932	+ .150	+ .161
Net Free Reserves	.140	– .45	+ .101
		% Change Since Three Months Ago*	Year Ago
Monetary Aggregates †			
M1 (3/4/85)	572.4	‡	‡
M2 (February '85)	2,420.6	+ 12.7	+ 9.2
M3 (February '85)	3,024.7	+ 11.2	+ 11.0
Domestic Nonfinancial Debt (4th Q'84)	5,970.8	+ 14.4	+ 13.6

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Data unavailable due to revisions.

New York Money Market

Offering Rates 3/15/85	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	8.50%	9.03%	9.20%
* Federal Agencies	9.20	9.77	10.20
* Project Notes—Taxfree (46% Taxable Equivalent	7.41	7.87	9.07
Negotiable Time CDs Manufacturers Hanover		Rates By Arrangement	
* Secondary Market—Prime	9.22	9.78	10.40

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	8.75	Apr.	9.05%
15- 29 days	8.80	May	9.10
30- 59 days	8.85	Jun.	9.20
60- 89 days	9.00	Jul.	9.35
90-179 days	9.15	Aug.	9.55
180-239 days	9.40	Sep.	9.50
240-270 days	9.40		

‡Industrial Paper—Prime			
30- 89 days	8.80%	†Federal Funds	
90-120 days	8.75	Effective Rate	8.80%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'84	$ 3,764	$ 3,695	$ 3,432
Gross National Product (1972 Dollars)*	4th Q'84	$ 1,665	$ 1,645	$ 1,573
Percent Change, Annual Rate	4th Q'84	4.9	1.6	5.9
Change in Consumer Prices*	Jan '85	2.4%	3.6%	7.2%
Change in Producer Prices*	Feb '85n	– 1.2%	0.0%	3.6%
Civilian Employment (Thousands of Persons)†	Feb '85	106,685	106,391	103,888
Unemployment as % of Civilian Labor Force†	Feb '85	7.3%	7.4%	7.8%
Personal Income*	Jan '85	$ 3,130	$ 3,114	$ 2,897
Leading Indicators Composite Index (1967=100)†	Jan '85	166.7	163.9	164.5
Industrial Production Index (1967=100) †	Feb '85n	164.7	165.5r	160.0
Net Change in Consumer Installment Credit †	Dec '84	$ 6.95	$ 7.95	$ 5.78
U.S. Merchandise Trade Balance †	Jan '85	–$ 10.29	–$ 8.03	–$ 9.51
Plant and Equipment Expenditures*	1st Q'85	$337.85(a)	$321.40(a)	$293.15
Private Housing Starts (Thousands of Units)*	Jan '85	1,833	1,595	1,933
New Construction Expenditures*	Jan '85	$ 324.9	$ 318.4	$ 280.9
Total Business Inventories †	Jan '85n	$ 568.4	$ 566.3r	$ 518.1
Total Business Sales †	Jan '85n	$ 415.5	$ 418.5r	$ 401.1

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

many baby care products have been posting impressive gains. For example, sales of disposable diapers grew sharply in 1984 despite rising prices. While in 1961, disposable diapers represented only one percent of all diaper changes, now they account for more than 75 percent. Furthermore, sales of baby food have advanced on average by 11 percent per year since 1980. Sales of baby wipes expanded by close to 20 percent last year at the nation's supermarkets—where nearly three-quarters of them are purchased—while drugstores sold 17 percent more than in 1983.

Since young children get out of the house more than they used to—for day-care, play groups, pre-nursery programs or baby exercise classes—sales of young children's clothing have expanded dramatically. But pastels have been replaced by primary colors, with many items featuring well-known designer labels and correspondingly, higher prices. In fact, reflecting the strength in the children's business, increasing numbers of adult clothing manufacturers are offering scaled-down versions of adult clothes. In many cases, these are their most profitable lines.

However, the rise in yearly births will not go on for long. The Census Bureau expects them to peak as early as 1988 at 3.85 million. With the 20-29 cohort—which has the highest fertility rates—shrinking, the government forecasts the number of births to fall to 3.6 million by the year 1995 and 3.47 million by 2000. H

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/27/85)	157,162	+ 1,462	+14,575
New York City (3/6/85)	33,612	+ 92	+ 4,129
Commercial Paper (3/6/85)	248,643	+ 1,421	+55,746

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/27/85)	253,879	+ 895	+ 24,824
New York City (3/6/85)	62,264	+ 891	+ 2,724

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/27/85)	658,617	+ 300	+ 65,918
New York City (3/6/85)	143,356	+ 1,810	+ 12,555

Financial Markets

	Friday 3/15/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.69%	– .17	– 1.00
180-Day Bills†	9.46	+ .10	– .66
Longest Bills†	9.95	+ .24	– .43
Recent Issues:			
10s 2/28/87	10.76	+ .21	
10$\frac{5}{8}$s 12/31/88	11.44	+ .25	
11$\frac{1}{4}$s 2/15/95	11.90	+ .19	
11$\frac{1}{4}$s 2/15/15	11.83	+ .12	
Municipals:			
Bond Buyer—20 Bond Index* (3/14/85)	9.76%	+ .01	– .22
Blue List Total ($ Million)	$1,704	– $ 11	+ $ 295
30-Day Visible Supply ($ Million)	$3,661	+ $218	+ $1,086
Total	$5,365	+ $207	+ $1,381
Corporates:			
Moody's Aa Composite (3/14/85)	12.96%	+ .11	– .27
30-Day Visible Supply ($ Million)	$1,110	– $270	– $2,385
Stocks:			
Dow-Jones Averages:			
Industrials	1,247.02	– 22.64	+ 62.66
Transportation	602.19	– 13.18	+ 83.98
Utilities	147.00	– .77	+ 19.40
65 Stocks	507.19	– 8.78	+ 43.71
Standard and Poor's 500 Stocks	167.53	– 11.57	+ 8.26
N.Y.S.E. Composite Index	102.46	– 1.36	+ 10.73
N.Y.S.E. Avg. Daily Vol. for Week (000's)	97,536	–11,406	+ 4,866

* 46% Taxable equivalent 18.07%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 3/15/85	Week Ago
Overnight	8.50%	8.44%
1 month	9.00	9.00
3 month	9.45	9.56
6 month	10.06	10.25
1 year	11.00	11.06
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.10%	12.00%
Long Term (7 to 15 yrs.)	12.33	12.30

FOREIGN EXCHANGE SPOT RATES

New York Opening (3/15/85)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01463	68.3450
Canada	.7194	1.3900
Denmark	.08251	12.1200
France	.09629	10.3850
Germany	.2941	3.4000
Italy	.0004664	2144.00
Japan	.003831	261.02
Mexico	.004024	248.50
Netherlands	.2598	3.8485
Switzerland	.3455	2.8940
U.K.	1.0800	.9259

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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, MARCH 25, 1985

VOLUME XXII, NUMBER 12

Slower Economic Growth . . .

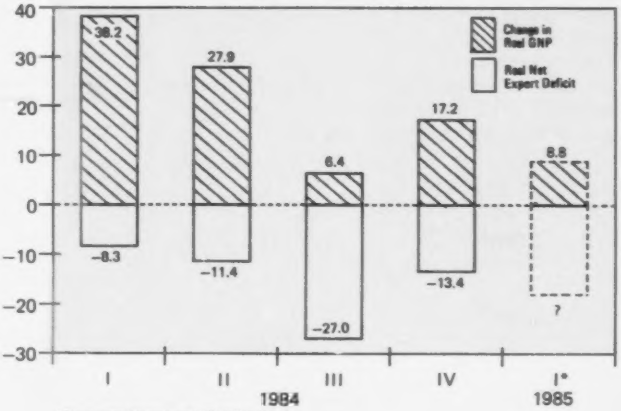
The current business expansion would seem to be losing much of the wind from its sails, if the government's "flash" estimate of economic growth in the quarter now ending is any guide. The Commerce Department reported that inflation-adjusted GNP grew at a 2.1 percent seasonally adjusted annual rate in the January-March period—less than half of the revised 4.3 percent annual rate of increase in the fourth quarter of 1984 and only half a percentage point above the third quarter's meager rise.

Of course, the flash report offers merely the government's first attempt to estimate the first quarter's growth in the nation's output of goods and services. This calculation is based on preliminary and incomplete data for about half of the January-March period and is subject to extensive revisions as more and better data become available. In the past eight quarters of the current recovery, the Commerce Department overestimated the strength of business activity three times in its flash report; in the other five quarters, it underestimated the actual number. The differences in the growth rates between the final revision and the flash estimate have ranged from −2.0 to +2.9 percentage points.

To be sure, the transition to a more moderate pace of growth is not unusual at this point in the business expansion. The current business upswing, which is now in its 28th month, is well past the halfway point of the 45-month average life span of the other eight postwar expansions. However, this flash report not only points to a sharp slowing in the momentum of the business expansion, it also implies some disturbing imbalances among the major sectors of the economy.

While the consumer sector remains buoyant, economic growth is being muted by a lower rate of inventory accumulation and severe weakness in the trade sector. In addition, the monthly economic statistics released so far for the January-March quarter point with increasing frequency to a divergence between domestic demand and production. Strong consumer activity led to a 1.5 percent rise in retail sales in February and a continuation of auto sales at a more than eight million unit annual rate in early March. Such strong sales, however, did not lead to a boost in production. Output of consumer nondurables declined 0.5 percent in February, while production of household durables fell 0.1 percent. Moreover, substantial downward revisions of the industrial production index for the preceding three months shows total output to be lower in February than it was last summer.

CHANGE IN REAL GNP VS. REAL NET EXPORT DEFICIT
(BILLIONS OF 1972 DOLLARS)



*Commerce Department "flash" estimate

. . . Reflects Rising Imports . . .

The culprit in this growing imbalance between domestic demand and production is, to a large extent, the overvalued U.S. dollar. Although the strong dollar has helped to combat inflation, it has also hurt those American producers who export their goods or who compete with imports. The mighty dollar is also motivating manufacturing companies to shift their production abroad and purchase components and finished products from foreign suppliers. At the same time, U.S. exporters are abandoning overseas markets, where sales have not been satisfactory. As a result, U.S. net exports (GNP basis) swung from a surplus of $12.6 billion in 1983 to a record deficit of $15 billion in 1984. A rising trade deficit means that more and more of domestic demand is satisfied from abroad, thus cutting into domestic output (see chart).

Manufacturers Hanover
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Today, U.S. imports amount to ten percent of real GNP, compared with less than six percent just a decade ago. Growing imports explain why the surge of domestic demand has not led to a corresponding increase in output. Although U.S. consumers have benefited from cheaper imports, the negative effects of the overvalued dollar are now beginning to outweigh the positive impact on inflation.

Not only are U.S. consumers acquiring more foreign-made goods, but American businessmen are buying more capital equipment from foreign producers as well. U.S. industrial companies have seemingly lost their reluctance to buy business equipment from foreign sources. Imports of capital goods rose 46 percent in 1984—the sharpest jump of any major category. Not surprisingly, new domestic orders for nondefense capital goods have fallen in eight out of the past 12 months. This trend in the face of relatively strong business investment plans, particularly for business equipment, plainly reflects strong competition from imports. On the other hand, new orders for automobiles, which have been protected against rising imports by quotas, and for the defense industry, which is much less affected by imports, continue strong. Not surprisingly, the automobile and defense industries continued to grow, while most other components of industrial output have flattened or declined since last summer.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	3/20/85	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	168.398	+ .911	+ 9.943
Loans to Depository Inst.	1.681	– .357	+ .604
Float	.329	– .177	– .762
Total Reserve Bank Credit	182.209	+ .712	+12.893
Treasury Deposits with Federal Reserve Banks	3.818	– .243	– 1.509
Currency in Circulation	179.300	– .127	+10.666
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	115.506	+ 1.152	+ .639
	3/13/85		
Member Bank Reserves:			
Total Reserves Held	40.055	+ .457	+ 3.315
Excess (Deficiency)	.751	– .055	– .020
Net Free Reserves**	.110	– .125	+ .007
		% Change Since	
Monetary Aggregates †		Three Months Ago*	Year Ago
M1 (3/11/85)	570.6	+ 11.7‡	+ 6.7‡
M2 (February '85)	2,419.3	+ 12.6	+ 9.1
M3 (February '85)	3,040.3	+ 10.9	+ 10.9
Domestic Nonfinancial Debt (4th Q'84)	5,970.8	+ 14.4	+ 13.6

†Seasonally adjusted.
**Redefined.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 3/22/85	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	8.45%	8.84%	9.04%
* Federal Agencies	9.00	9.65	10.05
* Project Notes—Taxfree (46% Taxable Equivalent)	8.89	9.26	10.19
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.80	9.30	10.10

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	8.60%	Apr.	8.75%
15- 29 days	8.65	May	8.75
30- 59 days	8.65	Jun.	8.85
60- 89 days	8.65	Jul.	8.90
90-179 days	8.78	Aug.	9.10
180-239 days	8.90	Sep.	9.10
240-270 days	8.90		

‡Industrial Paper—Prime		†Federal Funds	
30- 89 days	8.60%		
90-120 days	8.65	Effective Rate	8.65%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period			Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th	Q'84	$ 3,759r	$ 3,695	$ 3,432
Gross National Product (1972 Dollars)*	4th	Q'84	$ 1,662r	$ 1,645	$ 1,573
Percent Change, Annual Rate	4th	Q'84	4.3r	1.6	5.9
Change in Consumer Prices*	Feb	'85n	3.6%	2.4%	4.8%
Change in Producer Prices*	Feb	'85	– 1.2%	0.0%	3.6%
Civilian Employment (Thousands of Persons)†	Feb	'85	106,685	106,391	103,888
Unemployment as % of Civilian Labor Force†	Feb	'85	7.3%	7.4%	7.8%
Personal Income*	Feb	'85n	$ 3,141	$ 3,131r	$ 2,924
Leading Indicators Composite Index (1967=100)†	Jan	'85	166.7	163.9	164.5
Industrial Production Index (1967=100) †	Feb	'85	164.7	165.5	160.0
Net Change in Consumer Installment Credit †	Jan	'85n	$ 7.22	$ 6.82r	$ 5.40r
U.S. Merchandise Trade Balance †	Jan	'85	–$ 10.29	–$ 8.03	–$ 9.51
Plant and Equipment Expenditures*	1st	Q'85	$337.85(a)	$321.40(a)	$293.15
Private Housing Starts (Thousands of Units)*	Feb	'85n	1,638	1,841r	2,208
New Construction Expenditures*	Jan	'85	$ 324.9	$ 318.4	$ 280.9
Total Business Inventories †	Jan	'85	$ 568.4	$ 566.3	$ 518.1
Total Business Sales †	Jan	'85	$ 415.5	$ 418.5	$ 401.1

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

. . . Causing Losses In Factory Jobs

The growing import penetration into U.S. markets has limited output, employment and profits in many domestic manufacturing industries. This burden has caused a sharp division in employment patterns among those sectors which produce goods and those that provide services. While total nonfarm employment is at an all-time high, the manufacturing sector has failed to make up for jobs lost during the last two recessions. On the other hand, service-providing industries, which are hardly affected by import competition, are thriving.

This divergence between the performance of the service-providing and goods-producing sectors was underscored in the February labor force data. While employment in service industries climbed a healthy 255,000, manufacturing jobs shrunk by 77,000 and the average factory workweek fell by 0.6 hours.

The rapidly growing outflow of American sales into the world market is the major reason for the slowdown in U.S. output growth. According to a recent study, the sharp appreciation of the dollar since 1980 has cost the U.S. an estimated two million jobs—1.5 million in manufacturing alone—and has cut national output by four percent.

Short Term Paper Outstanding
(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (3/6/85)	157,034	– 137	+13,431
New York City (3/13/85)	33,421	– 191	+ 3,983
Commercial Paper (3/13/85)	248,726	+ 83	+52,449

Bank Loans
(Millions of Dollars)

Weekly Reporting Large Commercial Banks	Commercial and Industrial Loans: Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/6/85)	255,628	+ 2,342	+ 25,021
New York City (3/13/85)	61,852	– 507	+ 2,292

	Total Loans and Leases Gross Adjusted: Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/6/85)	662,613	+ 4,213	+ 72,423
New York City (3/13/85)	143,285	– 196	+ 11,629

Financial Markets

	Friday 3/22/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.79%	+ .10	– 1.36
180-Day Bills†	9.41	– .05	– 1.18
Longest Bills†	9.83	– .12	– 1.08
Recent Issues:			
$10^{3}/_{4}$s 3/31/87 (When Issued)	10.75	NA	
$10^{5}/_{8}$s 12/31/88	11.34	– .10	
$11^{1}/_{4}$s 2/15/95	11.87	– .03	
$11^{1}/_{4}$s 2/15/15	11.81	– .02	
Municipals:			
Bond Buyer–20 Bond Index* (3/21/85)	9.82%	+ .06	– .19
Blue List Total ($ Million)	$1,673	– $ 31	+ $ 241
30-Day Visible Supply ($ Million)	$4,291	+ $630	+ $1,942
Total	$5,964	+ $599	+ $2,183
Corporates:			
Moody's Aa Composite (3/21/85)	12.95%	– .01	– .40
30-Day Visible Supply ($ Million)	$ 880	– $220	+ $ 475
Stocks:			
Dow-Jones Averages:			
Industrials	1,267.45	+ 20.43	+ 112.61
Transportation	594.88	– 7.31	+ 91.69
Utilities	149.26	+ 2.26	+ 22.38
65 Stocks	511.41	+ 4.22	+ 58.74
Standard and Poor's 500 Stocks	179.04	+ 11.51	+ 22.18
N.Y.S.E. Composite Index	103.65	+ 1.19	+ 13.30
N.Y.S.E. Avg. Daily Vol. for Week (000's)	103,306	+ 5,770	+ 22,266

* 46% Taxable equivalent 18.19%.

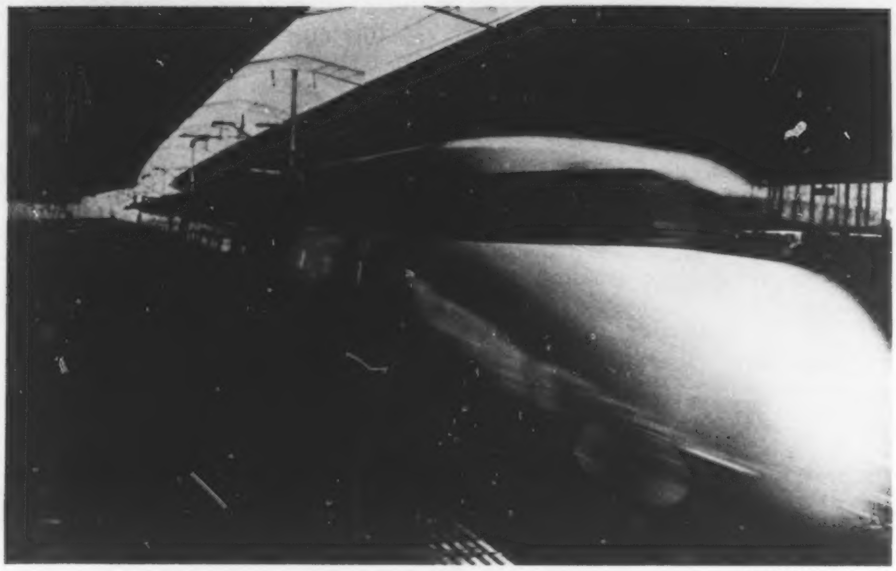
† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 3/22/85	Week Ago
Overnight	8.63%	8.50%
1 month	8.81	9.00
3 month	9.13	9.45
6 month	9.69	10.06
1 year	10.50	11.00
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.95%	12.10%
Long Term (7 to 15 yrs.)	12.10	12.33

FOREIGN EXCHANGE SPOT RATES

New York Opening (3/22/85)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01548	64.60
Canada	.7300	1.3698
Denmark	.08707	11.4850
France	.1019	9.8100
Germany	.3111	3.2145
Italy	.0004901	2040.50
Japan	.003922	254.98
Mexico	.004016	249.00
Netherlands	.2759	3.6250
Switzerland	.3672	2.7230
U.K.	1.1760	.8503



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The Manufacturers
Hanover
Financial
Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, APRIL 1, 1985
VOLUME XXII, NUMBER 13

A Widening U.S. Trade Deficit . . .

One of the more challenging issues confronting public policymakers and private industry alike is how to cope with the damaging effects of a widening trade deficit. With the dollar still at lofty heights and import penetration of domestic markets increasing, numerous industries are increasingly hard-pressed to compete with foreign manufacturers, prompting lost sales and profits, jobs and household income. Although total imports dipped slightly in February, non-petroleum imports continued to rise, pushing the trade deficit to a hefty $11.45 billion during the month—the largest trade shortfall since September, 1984.

But what about the other side of the coin, the beneficiaries of the growing U.S. appetite for foreign-produced products? Too often overlooked in all this are the stimulative effects of the trade deficit worldwide, particularly with our trading partners south of the border.

In Latin America, real growth resumed in 1984. At an almost three percent clip, this increase ended the region's sharpest and most severe recession since the 1930s. Contributing to this recovery was a dramatic improvement in the external accounts of several of the Latin American countries last year—paced by a ten percent increase in Latin exports. As a result, the trade surplus of the six high debt Latin countries alone reached almost $40 billion, up nearly $10 billion from 1983 and almost $37 billion better than in 1981.

Even more encouraging, these gains occurred despite a pickup in imports, which rose almost three percent region-wide last year, following a two-year slide. But stepped-up Latin export sales were directly reflected in the trade balance of the United States—one of their largest trading partners. Although imports of such agricultural commodities as coffee and sugar rose substantially, there was also a surge in imports of such manufactured goods as auto parts, steel products and electrical equipment. Overall, the U.S. absorbed well over half of Latin America's export increase. This resulted in the region's trade surplus with the U.S. topping $16 billion in 1984, a sharp turnaround from three years ago when the U.S. enjoyed a surplus of nearly $7 billion!

. . . Helps Put Latin America . . .

The benefits of this better trade performance were, however, disproportionately shared. Brazil alone accounted for more than half of the region's rise in export earnings, and together with Mexico garnered nearly three quarters of the increase; the remainder accrued to Venezuela, Argentina and Colombia. Last year, the improved trade performance of the six high debt Latin American countries helped to generate a current account surplus of nearly $3½ billion—a substantial turnaround from the $30 billion plus shortfall of 1981.

MERCHANDISE TRADE AND CURRENT ACCOUNT BALANCES OF SELECTED DEVELOPING COUNTRIES

(billions of U.S. dollars)

	Merchandise Trade		Current Account	
Country	1981	1984(e)	1981	1984(e)
Argentina	0.7	4.0	– 4.7	–2.2
Brazil	1.2	13.1	–11.7	0.2
Chile	–2.7	0.3	– 4.7	–2.1
Mexico	–4.1	12.8	–13.9	4.2
Peru	–0.5	0.9	– 1.7	–0.6
Venezuela	7.9	8.2	4.0	3.9
6 High Debt Latin Countries	2.5	39.3	–32.7	3.4

Source: International Monetary Fund; MH estimates.

The revival of regional exports also facilitated a substantial rebuilding of the hard currency reserves of those countries which achieved hefty trade surpluses. Brazil, Mexico and Venezuela added sizable sums to their existing cash balances last year, accounting for the largest chunk of the $13 billion reserve increase in the region as a whole—the largest annual increase for Latin America on record!

This improvement in liquidity represents an important step towards the restoration of Latin America's creditworthiness. Another major step in this direction was a marked slowdown in the growth of the region's external debt. This is because with trade balances firmly in the black and current account deficits narrowing, the need for external borrowings diminished as well. The gross external

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debt of Latin America and the Caribbean reached $365 billion at yearend 1984. This 3.2 percent rise matched the 1983 increase; it represents no change in real terms in the last two years, and contrasts sharply with an increase of 14 percent in 1982 and an average annual increase of 23 percent between 1977 and 1981. These developments have substantially eased the heavy servicing burden imposed by this external debt, which declined relative both to the size of these countries and, even more markedly, relative to their export earnings.

. . . Back On The Growth Track

Unfortunately, the adjustment in the external accounts has yet to be matched by comparable improvements in Latin America's domestic economies. Targets set for cuts in fiscal deficits, inflation rates and monetary expansion have yet to be met, although taxes were boosted, public spending reduced, credit availability restricted, interest rates raised, and currencies devalued to promote export competitiveness. These adjustment measures are necessary to sustain overall growth in the years to come. Emphasis on business investment will be necessary to avoid potential capacity bottlenecks which could result from investment declines in the last three years.

But with the likelihood of raising sizable sums abroad through further borrowings diminished for now, and direct foreign investment offering only a partial solution, the largest chunk of

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 3/27/85	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	168.108	− .290	+ 9.790
Loans to Depository Inst.	.897	− .784	− .298
Float	.252	− .077	− .229
Total Reserve Bank Credit	181.159	− 1.050	+12.203
Treasury Deposits with Federal Reserve Banks	4.280	+ .462	− .078
Currency in Circulation	178.850	− .450	+10.587
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	115.079	− .427	− 2.486
	3/27/85		
Member Bank Reserves:			
Total Reserves Held	39.732	− .322	+ 3.355
Excess (Deficiency)	.668	− .083	− .057
Net Free Reserves**	.218	+ .108	+ .598
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M1 (3/18/85)	570.1	+ 11.5‡	+ 6.5‡
M2 (February '85)	2,419.8	+ 12.6	+ 9.2
M3 (February '85)	3,040.7	+ 10.9	+ 10.9
Domestic Nonfinancial Debt (4th Q'84)	5,970.8	+ 14.4	+ 13.6

†Seasonally adjusted.
**Redefined.
* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 3/29/85	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	8.16%	8.54%	8.75%
* Federal Agencies	8.95	9.50	9.90
* Project Notes—Taxfree (46% Taxable Equivalent)	7.87	8.33	9.26
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.75	9.15	9.95

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	8.50%	Apr.	8.70%
15- 29 days	8.50	May	8.75
30- 59 days	8.55	Jun.	8.75
60- 89 days	8.60	Jul.	8.85
90-179 days	8.70	Aug.	8.85
180-239 days	8.90	Sep.	8.95
240-270 days	8.90		

‡Industrial Paper—Prime			
30- 89 days	8.63%	†Federal Funds	
90-120 days	8.60	Effective Rate	8.75%

‡Discount basis.
* Subject to availability.
† Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'84	$ 3,759	$ 3,695	$ 3,432
Gross National Product (1972 Dollars)*	4th Q'84	$ 1,662	$ 1,645	$ 1,573
Percent Change, Annual Rate	4th Q'84	4.3	1.6	5.9
Change in Consumer Prices*	Feb '85	3.6%	2.4%	4.8%
Change in Producer Prices*	Feb '85	− 1.2%	0.0%	3.6%
Civilian Employment (Thousands of Persons)†	Feb '85	106,685	106,391	103,888
Unemployment as % of Civilian Labor Force†	Feb '85	7.3%	7.4%	7.8%
Personal Income*	Feb '85	$ 3,141	$ 3,131	$ 2,924
Leading Indicators Composite Index (1967=100)†	Feb '85n	167.5	166.4r	166.5
Industrial Production Index (1967=100) †	Feb '85	164.7	165.5	160.0
Net Change in Consumer Installment Credit †	Jan '85	$ 7.22	$ 6.82	$ 5.40
U.S. Merchandise Trade Balance †	Feb '85n	−$ 11.45	−$ 10.29	−$ 10.38
Plant and Equipment Expenditures*	1st Q'85	$337.85(a)	$321.40(a)	$293.15
Private Housing Starts (Thousands of Units)*	Feb '85	1,638	1,841	2,208
New Construction Expenditures*	Jan '85	$ 324.9	$ 318.4	$ 280.9
Total Business Inventories †	Jan '85	$ 568.4	$ 566.3	$ 518.1
Total Business Sales †	Jan '85	$ 415.5	$ 418.5	$ 401.1

*Seasonally adjusted annual rate.
†Seasonally adjusted.
n-Newly reported figure.
r-Revised.
a-Anticipated.

these funds must be provided internally—which means raising domestic savings. The first step in this direction has already begun with the trimming of fiscal deficits and the freeing of funds for private investment. The second step is to create an economic environment which is more conducive to savings and investment. This would include measures that ensure the maintenance of positive real interest rates and competitive exchange rates, not to mention more modest rates of inflation.

These efforts represent only one phase of resolving the Latin American debt problem. Other remedies, whether in the form of multi-year debt reschedulings, stepped-up government-to-government assistance or increased funding for multinational development institutions or industrial country export credit agencies, are still being sought.

The United States has a major stake in ensuring that Latin America's liquidity problems continue to abate. For over the past three years, U.S. export sales to Latin America have declined by almost \$12½ billion—accounting for fully 80 percent of the global U.S. export decline during the same period. Just putting these countries back on the growth track will do more to boost the fortunes of the U.S. exporting community than any protectionist measures being considered either now, or likely to be in the future.

Short Term Paper Outstanding
(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of \$100,000 or more Weekly Reporting Banks			
Nationwide (3/13/85)	156,673	– 353	+13,348
New York City (3/20/85)	33,395	– 42	+ 4,212
Commercial Paper (3/20/85)	247,656	– 1,217	+50,329

Bank Loans
(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/13/85)	254,929	– 721	+ 24,589
New York City (3/20/85)	62,178	+ 326	+ 1,360

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/13/85)	661,279	– 1,640	+ 70,770
New York City (3/20/85)	143,917	+ 551	+ 11,634

Financial Markets

	Friday 3/29/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.45%	– .34	– 1.51
180-Day Bills†	9.03	– .38	– 1.36
Longest Bills†	9.46	– .37	– 1.20
Recent Issues:			
$10^{3}/_{4}$s 3/31/87 (When Issued)	10.43	– .32	
$11^{1}/_{4}$s 3/31/89 (When Issued)	11.12	NA	
$11^{1}/_{4}$s 2/15/95	11.65	– .22	
$11^{1}/_{4}$s 2/15/15	11.65	– .16	
Municipals:			
Bond Buyer–20 Bond Index* (3/28/85)	9.75%	– .07	– .18
Blue List Total (\$ Million)	\$1,463	– \$210	– \$ 52
30-Day Visible Supply (\$ Million)	\$3,987	– \$304	+ \$1,889
Total	\$5,450	– \$514	+ \$1,837
Corporates:			
Moody's Aa Composite (3/28/85)	12.94%	– .01	– .36
30-Day Visible Supply (\$ Million)	\$ 475	– \$405	– \$1,165
Stocks:			
Dow-Jones Averages:			
Industrials	1,266.78	– .67	+ 101.89
Transportation	603.08	+ 8.20	+ 92.89
Utilities	153.11	+ 3.85	+ 26.28
65 Stocks	515.11	+ 3.70	+ 58.46
Standard and Poor's 500 Stocks	180.66	+ 1.62	+ 21.48
N.Y.S.E. Composite Index	104.60	+ .95	+ 12.93
N.Y.S.E. Avg. Daily Vol. for Week (000's)	93,316	– 9,930	+ 12,416

* 46% Taxable equivalent 18.06%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 3/29/85	Week Ago
Overnight	8.63%	8.63%
1 month	8.69	8.81
3 month	9.00	9.13
6 month	9.44	9.60
1 year	10.19	10.50
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.85%	11.95%
Long Term (7 to 15 yrs.)	12.00	12.10

FOREIGN EXCHANGE SPOT RATES

New York Opening (3/29/85)	U.S. \$ Equivalent	Currency Per U.S. \$
Belgium	.01616	61.8750
Canada	.7299	1.3700
Denmark	.08926	11.2030
France	.1064	9.4000
Germany	.3241	3.0850
Italy	.0005062	1975.50
Japan	.003982	251.13
Mexico	.004124	242.50
Netherlands	.2878	3.4750
Switzerland	.3813	2.6225
U.K.	1.2445	.8035

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The Manufacturers Hanover Financial Digest

Weekly Commentary, Selected Financial Data, and Business Indicators

FRIDAY, APRIL 5, 1985

VOLUME XXII, NUMBER 14

The Federal Reserve . . .

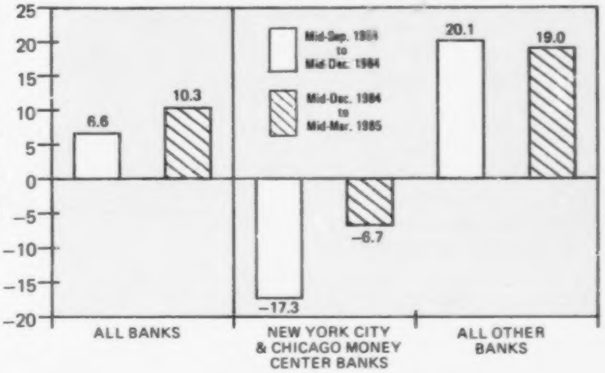
With the late-March meeting of the Federal Reserve's policy-setting Federal Open Market Committee now concluded, the financial markets are once again doing one of the things they apparently like to do best—speculate on the future course of monetary policy. Although fears had existed as recently as a month ago that the Fed might have to tighten the money and credit reins a notch in response to what was thought to be a robust pace of business, not to mention overly rapid money supply growth rates, it now appears a better bet that any monetary policy tightening will be put on hold for a while; indeed, there may well be a slight tilt toward further accommodation.

This is because of several reasons. First, sufficient doubts still exist regarding the strength of today's business expansion, particularly in the goods-producing sector of the economy where numerous industries are being negatively affected by rising imports. Then there are widespread expectations that the growth of the money supply has already begun to slow. Finally, there seems to be a reluctance on the part of the central bank to do anything which could result in a further strengthening of the dollar in the foreign exchange markets.

. . . Holds The Policy Reins Steady

Perhaps the top priority at the Fed in the coming months will continue to be to ensure that today's business expansion remains on track, especially in light of the still modest rates of inflation. This has been confirmed by both word and deed. Reference is made, in particular, to comments by Federal Reserve Governor Martha Seger before the Senate Banking Committee that the "Fed must strive to keep the economy going at a reasonable pace of three to four percent real growth." This came after Fed Chairman Paul Volcker's presentation of this year's monetary targets as bands as well as cones, in order to avoid the need to firm policy in response to what otherwise would have been above-target money supply growth. By switching public attention to a wider band of permitted money growth levels—especially now that M1 growth has slowed in recent weeks, putting its year-to-date growth near the top end of this wider target band—the Fed has reduced fears of tighter credit since central bankers have said that the growth of all the targeted aggregates will return to their target ranges.

COMMERCIAL & INDUSTRIAL LOANS OUTSTANDING
LATEST 13 WEEKS VS. IMMEDIATELY PRECEDING 13 WEEKS
(PERCENT CHANGE AT ANNUAL RATE)



On the other hand, although a fair degree of accommodation is likely in coming weeks, especially in light of trends in the real economy, the money supply, not to mention the difficulties of several Ohio thrift institutions, it is unlikely that the Fed will attempt to push interest rates sharply lower. Some of the more recent weaker business statistics may have been artificially dampened by severe weather in February and could well have rebounded smartly in March. This, together with the potential for more rapid money growth in the spring as personal income tax refunds are distributed, suggests that the present posture of monetary policy will remain steady in the weeks ahead.

At The Money Center Banks . . .

With monetary policy in a holding pattern, perhaps the most important determinant of the near-term interest rate outlook will be the strength of economy-wide credit demands—in particular, those of business. As of now, it appears that this year's more subdued growth of cash flow, lower long-term interest rates and a stronger tone in the equities market will have important effects on the finances

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of corporate America. To fill a widening gap between internally-generated funds and business outlays for inventories, plant and equipment, many corporations will turn to the bond markets both here and abroad, as well as to the equity and commercial paper markets.

Some corporations are seeking to fund short-term debt in the bond markets. The volume of corporate fixed-income securities in shelf registration alone soared past the $70 billion mark as of mid-March, almost 25 percent higher than at the beginning of the year. Others are seeking to add equity, rather than debt to their balance sheets. During the first two months of this year, cash offerings are estimated to be running at an annual rate some 40 percent higher than full-year, 1984 levels.

. . . A Steady Slump In Loan Demand

While these trends could spell a lackluster year for bank lending, holding commercial and industrial (C & I) loan growth to below the almost 15 percent rate of rise usually experienced at this stage of the business cycle, loan demand so far remains moderately strong, especially outside the money centers (see chart on page 1). C & I loans outstanding over the past three months have risen at a better than a ten percent annual rate; 15 percent over the past month. The money center banks, however, have yet to share in this upturn. C & I

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 3/27/85	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	168.108	− .290	+ 9.790
Loans to Depository Inst.	.897	− .784	− .298
Float	.252	− .077	− .229
Total Reserve Bank Credit	181.159	− 1.050	+12.203
Treasury Deposits with Federal Reserve Banks	4.280	+ .462	− .078
Currency in Circulation	178.850	− .450	+10.587
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	115.079	− .427	− 2.486
	3/27/85		
Member Bank Reserves:			
Total Reserves Held	39.732	− .322	+ 3.355
Excess (Deficiency)	.668	− .083	− .057
Net Free Reserves**	.218	+ .108	+ .598
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M1 (3/18/85)	570.1	+ 11.5‡	+ 6.5‡
M2 (February '85)	2,419.8	+ 12.6	+ 9.2
M3 (February '85)	3,040.7	+ 10.9	+ 10.9
Domestic Nonfinancial Debt (4th Q'84)	5,970.8	+ 14.4	+ 13.6

†Seasonally adjusted.
**Redefined.
* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 4/4/85	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	8.20%	8.61%	8.83%
* Federal Agencies	8.75	9.20	9.75
* Project Notes—Taxfree (46% Taxable Equivalent)	7.87	8.52	8.89
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.77	9.15	9.85

‡Finance Company Paper—Prime	
5- 14 days	8.40%
15- 29 days	8.50
30- 59 days	8.60
60- 89 days	8.65
90-179 days	8.75
180-239 days	8.88
240-270 days	8.90

‡* Bankers' Acceptances	
May	8.65%
Jun.	8.65
Jul.	8.70
Aug.	8.75
Sep.	8.80
Oct.	8.80

‡Industrial Paper—Prime	
30- 89 days	8.55%
90-120 days	8.65

†Federal Funds Effective Rate 8.55%

‡Discount basis.
* Subject to availability.
† Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'84	$ 3,759	$ 3,695	$ 3,432
Gross National Product (1972 Dollars)*	4th Q'84	$ 1,662	$ 1,645	$ 1,573
Percent Change, Annual Rate	4th Q'84	4.3	1.6	5.9
Change in Consumer Prices*	Feb '85	3.6%	2.4%	4.8%
Change in Producer Prices*	Feb '85	− 1.2%	0.0%	3.6%
Civilian Employment (Thousands of Persons) †	Feb '85	106,685	106,391	103,888
Unemployment as % of Civilian Labor Force†	Feb '85	7.3%	7.4%	7.8%
Personal Income*	Feb '85	$ 3,141	$ 3,131	$ 2,924
Leading Indicators Composite Index (1967=100)†	Feb '85	167.5	166.4	166.5
Industrial Production Index (1967=100) †	Feb '85	164.7	155.5	160.0
Net Change in Consumer Installment Credit †	Jan '85	$ 7.22	$ 6.82	$ 5.40
U.S. Merchandise Trade Balance †	Feb '85	−$ 11.45	−$ 10.29	−$ 10.38
Plant and Equipment Expenditures*	1st Q'85	$337.85(a)	$321.40(a)	$293.15
Private Housing Starts (Thousands of Units)*	Feb '85	1,638	1,841	2,208
New Construction Expenditures*	Feb '85n	$ 320.6	$ 316.2r	$ 300.4
Total Business Inventories †	Jan '85	$ 568.4	$ 566.3	$ 518.1
Total Business Sales †	Jan '85	$ 415.5	$ 418.5	$ 401.1

*Seasonally adjusted annual rate.
†Seasonally adjusted.
n-Newly reported figure.
r-Revised.
a-Anticipated.

loans outstanding at New York City and Chicago reporting banks dropped at an almost seven percent annual rate over the past quarter; in New York alone, C & I loans outstanding at its large reporting banks dropped at a better than eight percent clip over the past 13 weeks.

By contrast, loan demand at nonmoney center banks has been advancing quite rapidly. The increase amounts to a 19 percent annual rate over the past 13 weeks; 17 percent over the past year. If the past is any guide, this could be a harbinger of future trends at the New York City banks. One reason for the wide divergence is that while a diminished pace of merger and acquisition activity has produced softer loan demand at the large banks, the need by growing small- and medium-sized businesses to finance a rising level of inventory has bolstered borrowings at the smaller ones. Another may be that these smaller borrowers possess more limited financing alternatives than the corporate giants. More sizable firms have, for example, stepped up their issuance of less costly commercial paper, while paying down money center bank loans. Over the past six months alone, nonfinancial company commercial paper outstanding has increased by $8 billion, while C & I loans at New York City money center banks have dropped by $3 billion.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (3/20/85)	157,025	+ 336	+13,986
New York City (3/20/85)	33,395	− 42	+ 4,212
Commercial Paper (3/20/85)	247,656	− 1,217	+50,329

Bank Loans

(Millions of Dollars)

Weekly Reporting Large Commercial Banks	Commercial and Industrial Loans Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/20/85)	256,111	+ 1,207	+ 23,040
New York City (3/20/85)	62,178	+ 326	+ 1,360

	Total Loans and Leases Gross Adjusted Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/20/85)	664,768	+ 3,222	+ 70,724
New York City (3/20/85)	143,917	+ 551	+ 11,634

Financial Markets

	Thursday 4/4/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.40%	− .05	− 1.26
180-Day Bills†	9.13	+ .10	− .65
Longest Bills†	9.54	+ .08	− .27
Recent Issues:			
$10\frac{3}{4}$s 3/31/87	10.51	+ .08	
$11\frac{1}{4}$s 3/31/89	11.18	+ .06	
$11\frac{1}{4}$s 2/15/95	11.75	+ .10	
$11\frac{1}{4}$s 2/15/15	11.74	+ .09	
Municipals:			
Bond Buyer–20 Bond Index* (4/3/85)	9.63%	− .12	− .41
Blue List Total ($ Million)	$1,271	− $192	− $ 321
30-Day Visible Supply ($ Million)	$3,937	− $ 50	+ $1,672
Total	$5,208	− $242	+ $1,351
Corporates:			
Moody's Aa Composite (4/3/85)	12.89%	− .05	− .57
30-Day Visible Supply ($ Million)	$ 555	+ $ 80	− $1,070
Stocks:			
Dow-Jones Averages:			
Industrials	1,259.05	− 1.66	+ 128.50
Transportation	590.79	− 9.30	+ 105.40
Utilities	153.83	+ .98	+ 28.88
65 Stocks	510.79	− 2.07	+ 68.97
Standard and Poor's 500 Stocks	179.03	− .51	+ 23.99
N.Y.S.E. Composite Index	103.71	− .27	+ 14.38
N.Y.S.E. Avg. Daily Vol. for Week (000's)	93,625	−11,500	+ 1,557

* 46% Taxable equivalent 17.83%.

† Bond equivalent.

International Rates

	Thursday 4/4/85	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	8.38%	8.63%
1 month	8.75	8.69
3 month	9.00	9.00
6 month	9.44	9.44
1 year	10.19	10.19
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.85%	11.85%
Long Term (7 to 15 yrs.)	12.00	12.00

FOREIGN EXCHANGE SPOT RATES **New York Opening (4/4/85)**	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01577	63.4200
Canada	.7267	1.3760
Denmark	.08889	11.2500
France	.1039	9.6250
Germany	.3171	3.1540
Italy	.0004974	2010.50
Japan	.003935	254.13
Mexico	.004065	246.00
Netherlands	.2809	3.5600
Switzerland	.3743	2.6715
U.K.	1.2065	.8288

Woodcut illustration from Columbus' letter to the Spanish Court, 1493

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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, APRIL 15, 1985

VOLUME XXII, NUMBER 15

Another Good Year For Housing . . .

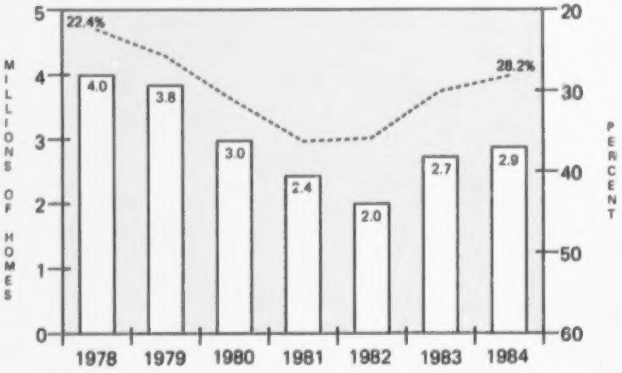
The housing industry in 1984 had its best year since 1978. Lower mortgage interest rates, stable home prices, rising personal incomes as well as tax benefits stemming from the Accelerated Cost Recovery program combined to lift residential construction by more than 20 percent on top of 1983's nearly 50 percent advance. The home resale market was strong, too: nearly 2.9 million single-family homes were sold in 1984—the most since 1980's three million homes. This rebound has had wide ranging beneficial effects on many related industries. For example, retail sales of building supplies shot up 18 percent in 1984, year-over-year, substantially above the ten percent gain posted by overall retail sales. This has occurred while lumber prices remained stable and the cost of cement edged up only slightly. Home appliance purchases soared by 40 percent during the year, while sales of furniture expanded by a hefty 15 percent.

But while mortgage interest rates may not drift much lower, 1985 should be another good year for this sector, with housing starts rising above last year's 1.8 million units. As mortgage interest rates near their bottom, potential homebuyers may decide to change their "wait and see" attitude and respond to the decline in rates underway since mid-1984. And while some people may have been confused about the vitality of the economy late last year, others apparently feel that now is a good time to buy a home. The latest Conference Board survey reveals that in March, the number of people planning to buy a home rose to its highest level in nine months.

While many contractors will be busy building new homes, others will be renovating and enlarging existing homes. Those homeowners who cannot afford to "trade up," find adding on or remodeling an alternative to buying a new home. Last year, expenditures on additions and alterations jumped by 16 percent, compared with 1983, amounting to a hefty $23.5 billion.

Although housing starts fell steeply in February, month-over-month, it should not be viewed as an ominous sign. The possibility of tax reform—where investors in multi-family projects would lose a number of tax breaks—has created a great deal of uncertainty, causing the numbers for apartment construction to jump around since mid-1984. The 37 percent drop in starts of homes with more than five units in February overshadowed a rise of 5.3 percent in single-family starts to a 1.12 million unit pace—the highest since April, 1984.

EXISTING SINGLE-FAMILY HOMES SOLD (BAR)
VS. MORTGAGE PAYMENT AS A % OF
INCOME <INVERTED SCALE> (DOT)



. . . Boosted By Improved Affordability . . .

One reason for the favorable outlook is improving affordability. According to the National Association of Realtors, the gap between the nation's median family income and the income needed to qualify for a mortgage to buy a median-priced existing single-family home narrowed significantly last year. To be sure, the median family income has trailed the qualifying income since 1979, but while in 1981 the gap was more than 30 percent, it is now down to 11 percent. This means that people need not devote as much of their monthly paychecks to principal and interest payments as they did several years ago. Although still high by historical standards, 28 percent of people's incomes went toward mortgage payments in 1984, down from the peak of 36 percent in 1981 (see chart).

Changing demographics are important to the outlook for housing. But while the pent-up demands

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of the postwar baby boom crowds have been widely publicized, the demands of the nation's elderly have been given much less attention. Growing more than twice as fast as the population as a whole over the past 25 years, this group will add another 3.7 million people to its ranks by the end of this decade. Since the number of persons in their households has shrunk, many would prefer moving out of their current homes into smaller yet luxurious houses. Others, as an alternative to living alone are choosing to live in communities, which provide good security, companionship, recreational activities and even some medical care. This is a good opportunity for innovative builders in just about any area of the country. Already, builders in New Jersey, Arizona, Florida, California and Texas have begun to respond to this market.

. . . And Changing Demographics

However, the baby boomers will provide the biggest boost to housing. This year, there are some 42 million Americans 25 to 34 years old—the age when people typically buy their first homes—up from 38 million just four years ago. Equally important is the expansion in the ranks of the 35 to 44 year olds, who generally "trade up" to more spacious quarters.

Nevertheless, most potential homebuyers are still priced out of the market. Thus, in pursuit of the American dream, a majority of buyers now make a

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 4/10/85	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	169.913	+ 1.000	+10.244
Loans to Depository Inst.	1.863	+ .176	+ .350
Float	12.081	− .418	+ 3.100
Total Reserve Bank Credit	184.754	+ 1.125	+13.247
Treasury Deposits with			
Federal Reserve Banks	4.189	+ 1.208	+ 1.091
Currency in Circulation	181.416	+ 1.860	+11.020
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	115.271	− 3.527	− .467
	4/10/85		
Member Bank Reserves:			
Total Reserves Held	40.816	+ .979	+ 3.691
Excess (Deficiency)	.628	− .176	+ .283
Net Free Reserves	.148	− .206	+ 1.080
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M1 (3/25/85)	572.8	+ 10.6‡	+ 6.4‡
M2 (March '85)	2,427.4	+ 9.4	+ 8.9
M3 (March '85)	3,053.0	+ 10.5	+ 10.4
Domestic Nonfinancial Debt (4th Q'84)	5,970.8	+ 14.4	+ 13.6

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 4/12/85	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	8.03%	8.24%	8.43%
* Federal Agencies	8.55	8.95	9.49
* Project Notes—Taxfree (46% Taxable Equivalent)	8.80	9.07	9.63
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.55	8.79	9.30

‡Finance Company Paper—Prime	
5- 14 days	8.40%
15- 29 days	8.40
30- 59 days	8.45
60- 89 days	8.50
90-179 days	8.50
180-239 days	8.50
240-270 days	8.50

‡* Bankers' Acceptances	
May	8.50%
Jun.	8.50
Jul.	8.50
Aug.	8.50
Sep.	8.50
Oct.	8.50

‡Industrial Paper—Prime	
30- 89 days	8.40%
90-120 days	8.40

†Federal Funds Effective Rate 8.43%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'84	$ 3,759	$ 3,695	$ 3,432
Gross National Product (1972 Dollars)*	4th Q'84	$ 1,662	$ 1,645	$ 1,573
Percent Change, Annual Rate	4th Q'84	4.3	1.6	5.9
Change in Consumer Prices*	Feb '85	3.6%	2.4%	4.8%
Change in Producer Prices*	Mar '85n	2.4%	− 1.2%	6.0%
Civilian Employment (Thousands of Persons)†	Mar '85n	107,119	106,685	104,123
Unemployment as % of Civilian Labor Force†	Mar '85n	7.3%	7.3%	7.8%
Personal Income*	Feb '85	$ 3,141	$ 3,131	$ 2,924
Leading Indicators Composite Index (1967=100)†	Feb '85	167.5	166.4	166.5
Industrial Production Index (1967=100) †	Feb '85	164.7	165.5	160.0
Net Change in Consumer Installment Credit †	Feb '85n	$ 10.37	$ 7.22	$ 6.19
U.S. Merchandise Trade Balance †	Feb '85	−$ 11.45	−$ 10.29	−$ 10.38
Plant and Equipment Expenditures*	2nd Q'85n	$388.86(a)	$380.05(a)	$348.34
Private Housing Starts (Thousands of Units)*	Feb '85	1,638	1,841	2,208
New Construction Expenditures*	Feb '85	$ 320.6	$ 316.2	$ 300.4
Total Business Inventories †	Feb '85n	$ 576.9	$ 574.8r	$ 531.9r
Total Business Sales †	Feb '85n	$ 419.2	$ 418.3r	$ 401.8r

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

downpayment of less than 20 percent of the purchase price, whereas 25 percent or more used to be the norm. Until recently, a majority of households relied on only one earner; now a second paycheck is a must. And as mentioned above, housing payments have been taking up large chunks of incomes and when property taxes, utilities and hazard insurance are included, some have been pushed over the limit.

Initial overextension by homebuyers did not pose significant problems for lenders in the late 1970s and early 1980s. This is because inflation bailed out those who may have gone too far. Then, inflation drove personal incomes up at an average rate of more than 12 percent per year, while mortgage payments remained basically fixed (adjustable rate mortgages (ARMs) were not very popular then)—thus quickly improving homeowners' cash flow. This has now changed. While "real" incomes are posting healthier gains today, in nominal terms incomes have advanced only 7.5 percent per year since 1981. What is more, as the introductory, below market "teaser" rates on ARMs expired and homeowners' monthly payments suddenly jumped by 25 percent or more, many found that they could not meet their obligations. As a result, delinquency rates have risen sharply, representing more than 5.8 percent of outstanding mortgage loans in the second half of 1984.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (3/27/85)	157,794	+ 801	+13,945
New York City (4/3/85)	33,082	– 91	+ 3,767
Commercial Paper (4/3/85)	249,382	+ 516	+49,610

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/27/85)	255,655	– 452	+ 22,709
New York City (4/3/85)	61,935	+ 120	+ 627

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/27/85)	663,400	– 1,310	+ 69,994
New York City (4/3/85)	145,446	+ 2,608	+ 10,643

Financial Markets

	Friday 4/12/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.30%	– .10	– 1.70
180-Day Bills†	8.72	– .41	– 1.62
Longest Bills†	9.11	– .43	– 1.51
Recent Issues:			
$10\frac{3}{4}$s 3/31/87	10.07	– .44	
$11\frac{1}{4}$s 3/31/89	10.81	– .37	
$11\frac{1}{4}$s 2/15/95	11.40	– .35	
$11\frac{1}{4}$s 2/15/15	11.40	– .34	
Municipals:			
Bond Buyer–20 Bond Index* (4/11/85)	9.39%	– .24	– .58
Blue List Total ($ Million)	$1,170	– $101	– $430
30-Day Visible Supply ($ Million)	$3,313	– $624	+ $875
Total	$4,483	– $725	+ $445
Corporates:			
Moody's Aa Composite (4/11/85)	12.71%	– .18	– .61
30-Day Visible Supply ($ Million)	$ 810	+ $255	+ $ 25
Stocks:			
Dow-Jones Averages:			
Industrials	1,265.68	+ 6.63	+ 115.55
Transportation	598.21	+ 7.42	+ 100.88
Utilities	155.88	– 2.95	+ 30.54
65 Stocks	515.11	+ 4.32	+ 65.71
Standard and Poor's 500 Stocks	180.54	+ 1.51	+ 23.23
N.Y.S.E. Composite Index	104.64	+ .93	+ 14.14
N.Y.S.E. Avg. Daily Vol. for Week (000's)	93,424	– 201	+ 4,816

* 46% Taxable equivalent 17.39%.

† Bond equivalent.

International Rates

	Friday 4/12/85	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	8.50%	8.38%
1 month	8.63	8.75
3 month	8.75	9.00
6 month	9.00	9.44
1 year	9.69	10.19
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.40%	11.85%
Long Term (7 to 15 yrs.)	11.70	12.00

FOREIGN EXCHANGE SPOT RATES

New York Opening (4/12/85)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01619	61.7800
Canada	.7329	1.3645
Denmark	.09107	10.9800
France	.1068	9.3600
Germany	.3261	3.0665
Italy	.0005105	1959.00
Japan	.003979	251.32
Mexico	.004098	244.00
Netherlands	.2883	3.4685
Switzerland	.3880	2.5775
U.K.	1.2530	.7981

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The Manufacturers Hanover Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, APRIL 22, 1985
VOLUME XXII, NUMBER 16

Soft Statistics Raise Concerns . . .

At first blush, last week's government report on economic growth in the first quarter might suggest that the business expansion seems about over. According to the Commerce Department, the nation's inflation-adjusted output of goods and services grew at a 1.3 percent seasonally adjusted annual rate in the January-March period. This was not only less than one-third of the 4.3 percent annual rate of increase in the fourth quarter of 1984—it was also well below the 2.1 percent rate of growth reported in the so-called "flash" GNP estimate last month.

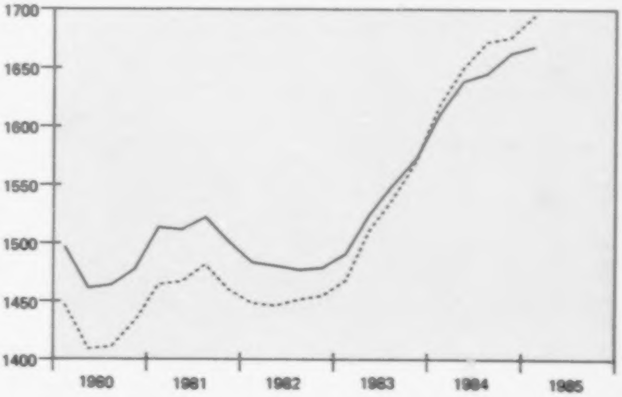
Although the first quarter's economic performance was the slowest since the end of 1982, it was, nevertheless, a continuation of the trend which began last summer. Then, the robust growth of the early stage of the business recovery switched to a more moderate pace—a not unusual development at this point in an expansion. Thus, after growing at a sizzling seven percent clip during the first six quarters of the current business upswing, real GNP in the past three quarters subsequently expanded at a more subdued 2½ percent pace. Besides the stage of the cycle, the slower rate of GNP growth also reflects the degree of damage that the unprecedented strength of the dollar has done to our manufacturing industries and foreign trade position.

The top-line GNP number, nevertheless, obscures the underlying strength of business activity. This is partly because a statistical quirk caused the implicit price deflator to show a rise of 5.3 percent annual rate in the first quarter—not only substantially above the 2.8 percent annual rate in the preceding quarter, but also suspiciously higher than recent readings of both the producer and consumer price indexes. This seeming acceleration in the rate of inflation as measured by the implicit price deflator reflected several one-shot developments—among them a government pay raise that went into effect in January, 1985, and an increase in usage of fuel and electricity. This runup in the deflator depressed real GNP growth.

. . . That The Economy Is Faltering . . .

On the other hand, spending by consumers and business is still growing at a healthy clip. Real domestic demand (real GNP minus net exports), rose at a 4½ percent rate in the first quarter, compared with an increase of only 0.9 percent in the previous quarter. Both the consumer and the business sectors were the major driving forces behind this. Consumer expenditures grew at a seasonally adjusted annual rate of 4.7 percent in the January-March period, while business spending for plant and equipment and inventory investment expanded at an annual rate of eight percent.

REAL GROSS NATIONAL PRODUCT (LINE)
VS. REAL DOMESTIC DEMAND (DOT)
(BILLIONS OF 1972 DOLLARS)



But this strong domestic demand did not translate into corresponding growth in domestic output because a greater chunk of it was satisfied from abroad (see chart). The surge in imports in the first quarter was the main factor contributing to slower GNP growth. After adjusting for inflation, imports in the January-March period soared 26.2 percent at an annual rate. At the same time, U.S. exports, in real terms, fell 8.2 percent from their level of the preceding quarter. Thus, the inflation-adjusted net export deficit in the GNP accounts increased by $12.7 billion from the final quarter of 1984. If

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the net export deficit in first-quarter 1985 had remained at the same level as in the fourth quarter of 1984, the real gross national product would have increased at a seasonally adjusted 4½ percent annual rate.

Another way to look at it is that escalating imports captured 52 percent of the first quarter's growth in real domestic demand. This means that the foreign trade sector is becoming an increasing drag on this business expansion, causing a shift of an increasing portion of our production overseas. As a consequence, many monthly business indicators pertaining to such goods-producing sectors as manufacturing and agriculture are now pointing to a sluggish economy. Total manufacturers' shipments have been essentially flat since early autumn, nondefense capital goods orders had been lackluster until February, and manufacturing employment has been flat since last April.

. . . But These Fears Are Misplaced

Is a recession looming on the horizon? It seems unlikely because the signs of excesses or imbalances which usually foreshadow the culmination of a business expansion, such as overbuilt inventories, accelerating inflation, capacity shortages and labor market tightness are not present.

Therefore, the economy should continue to expand at a modest pace over the balance of 1985. The consumer sector, which makes up two-thirds of overall

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	4/17/85	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	172.597	+ 2.684	+11.616
Loans to Depository Inst.	1.198	– .665	+ .447
Float	.561	– .252	– .108
Total Reserve Bank Credit	186.808	+ 2.187	+15.244
Treasury Deposits with Federal Reserve Banks	3.720	– .469	– .244
Currency in Circulation	181.698	+ .364	+10.838
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	116.287	+ 1.016	+ .549
	4/10/85		
Member Bank Reserves:			
Total Reserves Held	40.757	+ .912	+ 3.632
Excess (Deficiency)	.513	– .296	+ .168
Net Free Reserves	.033	– .326	+ .965
		% Change Since	
Monetary Aggregates†		Three Months Ago*	Year Ago
M1 (4/8/85)	573.6	+ 8.4‡	+ 6.5‡
M2 (March '85)	2,429.0	+ 9.7	+ 9.0
M3 (March '85)	3,054.5	+ 7.9	+ 10.5
Domestic Nonfinancial Debt (4th Q'84)	5,970.8	+ 14.4	+ 13.6

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 4/19/85	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.65%	7.85%	8.10%
* Federal Agencies	8.25	8.40	8.89
* Project Notes—Taxfree (46% Taxable Equivalent)	9.26	9.44	9.63
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.18	8.30	9.15

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	7.50%	May	8.10%
15- 29 days	7.80	Jun.	8.10
30- 59 days	8.05	Jul.	8.10
60- 89 days	8.10	Aug.	8.10
90-179 days	8.10	Sep.	8.10
180-239 days	8.15	Oct.	8.10
240-270 days	8.15		

‡Industrial Paper—Prime			
30- 89 days	8.00%	†Federal Funds	
90-120 days	8.10	Effective Rate	7.75%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'85n	$ 3,820	$ 3,759	$ 3,553
Gross National Product (1972 Dollars)*	1st Q'85n	$ 1,668	$ 1,662	$ 1,611
Percent Change, Annual Rate	1st Q'85n	1.3	4.3	10.1
Change in Consumer Prices*	Feb '85	3.6%	2.4%	4.8%
Change in Producer Prices*	Mar '85	2.4%	– 1.2%	6.0%
Civilian Employment (Thousands of Persons)†	Mar '85	107,119	106,685	104,123
Unemployment as % of Civilian Labor Force†	Mar '85	7.3%	7.3%	7.8%
Personal Income*	Mar '85n	$ 3,156	$ 3,140r	$ 2,941
Leading Indicators Composite Index (1967=100)†	Feb '85	167.5	166.4	166.5
Industrial Production Index (1967=100)†	Mar '85n	165.4	164.9r	160.8
Net Change in Consumer Installment Credit †	Feb '85	$ 10.37	$ 7.22	$ 6.19
U.S. Merchandise Trade Balance †	Feb '85	–$ 11.45	–$ 10.29	–$ 10.38
Plant and Equipment Expenditures*	2nd Q'85	$388.86(a)	$380.05(a)	$348.34
Private Housing Starts (Thousands of Units)*	Mar '85n	1,895	1,631r	1,700
New Construction Expenditures*	Feb '85	$ 320.6	$ 316.2	$ 300.4
Total Business Inventories †	Feb '85	$ 576.9	$ 574.8	$ 531.9
Total Business Sales †	Feb '85	$ 419.2	$ 418.3	$ 401.8

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

GNP, will remain an important driving force behind the economy's forward momentum. For example, continued growth in employment, as well as an increase in hours worked in March, contributed to a good-sized leap in wages and salaries. Not coincidentally, the Conference Board recently reported that its buying plan index is at its highest level in nine months. Individual tax refund payouts, which so far have been running more than $6 billion behind last year's disbursement rate, will be an important source of funds to consumers and should bolster their spending later this spring.

Even now, housing starts surged 16 percent in March. What is more, the 11 percent rise in building permits—a harbinger of future construction activity—suggests that homebuilding will remain an important source of growth in the coming months. Another element of strength will come from the business sector. The latest survey of capital spending plans for 1985 shows that businesses now intend to spend more on plant and equipment in 1985 than they planned three months ago. In support of this, business orders for nondefense capital goods surged 27.5 percent in February—one of the largest increases on record. Yet another encouraging sign suggesting continued growth in business activity in the months ahead comes from the Commerce Department's index of leading economic indicators. It rose 0.7 percent in February, following a 1.5 percent rise in January.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (4/3/85)	156,748	– 1,082	+13,949
New York City (4/10/85)	32,582	– 501	+ 3,977
Commercial Paper (4/10/85)	249,064	– 318	+45,269

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/3/85)	256,254	+ 609	+ 21,307
New York City (4/10/85)	61,210	– 778	+ 30

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/3/85)	668,516	+ 5,266	+ 60,801
New York City (4/10/85)	142,195	– 3,193	+ 9,920

Financial Markets

	Friday 4/19/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.05%	– .25	– 2.02
180-Day Bills†	8.40	– .32	– 2.05
Longest Bills†	8.85	– .26	– 2.07
Recent Issues:			
10¾s 3/31/87	9.74	– .33	
11¼s 3/31/89	10.47	– .34	
11¼s 2/15/95	11.14	– .26	
11¼s 2/15/15	11.25	– .15	
Municipals:			
Bond Buyer—20 Bond Index* (4/18/85)	9.25%	– .14	– .64
Blue List Total ($ Million)	$1,228	+ $ 58	– $283
30-Day Visible Supply ($ Million)	$3,169	– $144	+ $665
Total	$4,397	– $ 86	+ $382
Corporates:			
Moody's Aa Composite (4/18/85)	12.55%	– .16	– .92
30-Day Visible Supply ($ Million)	$ 845	+ $ 35	+ $120
Stocks:			
Dow-Jones Averages:			
Industrials	1,266.56	+ .88	+ 108.48
Transportation	584.92	– 13.29	+ 84.10
Utilities	155.21	– .67	+ 28.52
65 Stocks	511.88	– 3.23	+ 59.11
Standard and Poor's 500 Stocks	181.11	+ .57	+ 23.09
N.Y.S.E. Composite Index	105.00	+ .36	+ 14.11
N.Y.S.E. Avg. Daily Vol. for Week (000's)	91,660	– 1,764	+ 8,317

* 46% Taxable equivalent 17.13%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 4/19/85	Week Ago
Overnight	7.75%	8.50%
1 month	8.25	8.63
3 month	8.44	8.75
6 month	8.69	9.00
1 year	9.31	9.69
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.25%	11.40%
Long Term (7 to 15 yrs.)	11.50	11.70

FOREIGN EXCHANGE SPOT RATES

New York Opening (4/19/85)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01665	60.0450
Canada	.7401	1.3511
Denmark	.09337	10.7100
France	.1101	9.0850
Germany	.3359	2.9770
Italy	.0005252	1904.00
Japan	.004040	247.50
Mexico	.004082	245.00
Netherlands	.2967	3.3705
Switzerland	.4029	2.4820
U.K.	1.2920	.7740

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The Manufacturers Hanover
Financial Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, APRIL 29, 1985
VOLUME XXII, NUMBER 17

The Summit Agenda . . .

Like the opening of the baseball season, the annual international Economic Summit meeting has become another rite of spring. This week the leaders of the seven largest economies of the free world along with the President of the European Economic Community (EEC) will convene in Bonn, West Germany for the ninth annual Summit meeting. With the U.S. economic upswing now approaching its 30th month, and slowing down, and with European and Japanese economic performance unable to set the pace for global growth, the meeting will undoubtedly confront the issues of closed markets, the over-valued dollar and sluggish economic growth. Unfortunately, however, even though there is general agreement on what the economic problems are, the questions of who is responsible and how the problems are to be cured defy consensus.

Although the talks will range widely, world trade will clearly occupy a priority position on the agenda. President Reagan has made reform of the existing trade system a major goal. The principal objective of the United States is to get a firm commitment from the other participants for trade negotiations under the auspices of the General Agreement on Tariffs and Trade (GATT) by early 1986. It is hoped that these negotiations will resolve several issues of particular interest to the U.S. Reflecting the changes in both the structure of the U.S. economy and of exports since World War II, the U.S. is pressing urgently for the extension of GATT to cover trade in services as well as trade in merchandise. Another concern is that world trade in agricultural products be protected from the dumping of agricultural surpluses on world markets at prices below costs by countries which, for political reasons, subsidize their agricultural sectors while at the same time erecting barriers to agricultural imports, themselves. Most important, however, is the concern of the Reagan Administration about the growth of protectionism both here and abroad.

. . . Centers On Trade . . .

Sentiment in favor of protectionism in the United States has been fostered in recent years by the secular weakening of the manufacturing sector of the U.S. economy and the consequent loss of production and jobs. The strength of the dollar has exacerbated the situation by making U.S. manufacturers even less competitive abroad while at the same time encouraging a massive inflow of imports. Indeed, a substantial portion of recent U.S. economic growth has been fueled from abroad. The consequent massive trade and current account deficits which the flood of imports has generated, when taken in combination with the huge federal budget deficit, has engendered a protectionist attitude in Congress which seeks to keep dollars, production and jobs at home.

What is more, attention has again been focused on Japan, which last year had a record $37 billion trade surplus with the United States. The existence of a wide range of economic, political and cultural barriers to imports into Japan has led to the belief in many quarters that the relative openness of U.S. and European markets to Japanese goods is not being reciprocated. In spite of past agreements and concessions by the Japanese it would appear that obstacles to exporting to Japan continue to exist. While the leaders at the Summit may be reluctant to criticize any one of the other attendees directly, trade relations with Japan will no doubt be a major topic.

The key area of trade conflict between the United States and Japan centers on the so-called Market Oriented Sector Specific (MOSS) items of U.S. exports. These include telecommunications equipment, wood products, pharmaceuticals, medical equipment and electronics. These are priority items for the United States. Greater access to the Japanese market for these products is being intensely negotiated on several levels and there is a feeling that there must be major concessions at the Summit or soon thereafter, if U.S. pressure toward protectionism is to be blunted. Other trade matters, including barriers against trade in other products, are under continuing negotiation, but with less urgency and energy than the MOSS items.

The growth of protectionist sentiment in the United States is a matter of concern in Europe which owes a substantial part of its growth in the last two years to

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exports to the United States. Western Europe fears that Congressional outrage at the trade deficit might result in restrictive trade legislation which would threaten European exports to this country as well.

. . . The Dollar And Growth

Although the Europeans share U.S. concerns about the problems of Japanese trade, they also view the Summit meeting as an opportunity to deal with some of the problems they have with the United States. The French, for example, have tied their acceptance of the idea of trade negotiations to concurrent discussions on the international monetary system. This reflects their concern—shared with other Summit participants—about the strength of the dollar. In spite of the fact that the rise in the value of the dollar set the stage for the 57 percent growth in the value of EEC exports to the U.S. between the end of 1980 and the end of 1984, it has had negative effects as well. Not only did the cost in domestic currency terms of dollar-priced commodities (especially oil) escalate along with the dollar, but high interest rates in the U.S. attracted the capital necessary for their economic growth to the U.S., starving their domestic economies. Consequently, Europe finds itself substantially in agreement with the United States on the issue of trade with Japan, but critical of the United States

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 4/24/85	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	172.272	– .325	+ 6.739
Loans to Depository Inst.	1.118	– .080	– .595
Float	.665	+ .066	– .169
Total Reserve Bank Credit	186.236	– .610	+ 8.558
Treasury Deposits with Federal Reserve Banks	6.016	+ 2.296	– 2.591
Currency in Circulation	180.186	– .882	+10.063
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	116.686	+ .399	+ 2.493
	4/24/85		
Member Bank Reserves:			
Total Reserves Held	41.940	+ 1.176	+ 3.971
Excess (Deficiency)	.950	+ .431	+ .382
Net Free Reserves	.558	+ .519	+ 1.178
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M1 (4/15/85)	573.6	+ 8.6‡	+ 6.6‡
M2 (March '85)	2,429.2	+ 9.8	+ 9.0
M3 (March '85)	3,054.8	+ 8.0	+ 10.5
Domestic Nonfinancial Debt (4th Q'84)	5,970.8	+ 14.4	+ 13.6

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 4/26/85	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.80%	8.05%	8.25%
* Federal Agencies	8.25	8.50	9.07
* Project Notes—Taxfree (46% Taxable Equivalent)	8.89	9.26	9.63
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.30	8.65	9.40

‡Finance Company Paper—Prime	
5- 14 days	7.85%
15- 29 days	7.93
30- 59 days	8.05
60- 89 days	8.10
90-179 days	8.15
180-239 days	8.20
240-270 days	8.20

‡ * Bankers' Acceptances	
May	8.20%
Jun.	8.20
Jul.	8.25
Aug.	8.35
Sep.	8.45
Oct.	8.45

‡Industrial Paper—Prime	
30- 89 days	8.08%
90-120 days	8.10

†Federal Funds Effective Rate 8.05%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'85	$ 3,820	$ 3,759	$ 3,553
Gross National Product (1972 Dollars)*	1st Q'85	$ 1,668	$ 1,662	$ 1,611
Percent Change, Annual Rate	1st Q'85	1.3	4.3	10.1
Change in Consumer Prices*	Mar '85n	6.0%	3.6%	3.6%
Change in Producer Prices*	Mar '85	2.4%	– 1.2%	6.0%
Civilian Employment (Thousands of Persons)†	Mar '85	107,119	106,685	104,123
Unemployment as % of Civilian Labor Force†	Mar '85	7.3%	7.3%	7.8%
Personal Income*	Mar '85	$ 3,156	$ 3,140	$ 2,941
Leading Indicators Composite Index (1967=100)†	Feb '85	167.5	166.4	166.5
Industrial Production Index (1967=100) †	Mar '85	165.4	164.9	160.8
Net Change in Consumer Installment Credit †	Feb '85	$ 10.37	$ 7.22	$ 6.19
U.S. Merchandise Trade Balance †	Feb '85	–$ 11.45	–$ 10.29	–$ 10.38
Plant and Equipment Expenditures*	2nd Q'85	$388.86(a)	$380.05(a)	$348.34
Private Housing Starts (Thousands of Units)*	Mar '85	1,895	1,631	1,700
New Construction Expenditures*	Feb '85	$ 320.6	$ 316.2	$ 300.4
Total Business Inventories †	Feb '85	$ 576.9	$ 574.8	$ 531.9
Total Business Sales †	Feb '85	$ 419.2	$ 418.3	$ 401.8

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

on the issue of U.S. monetary and fiscal policies which they perceive as having resulted in high interest rates worldwide and the strong dollar—matters which are inevitably linked to trade.

The United States, on the other hand, views the conservative monetary and fiscal policies which characterize most of the European countries as the reason for low European growth rates during this recovery. These policies are also blamed for weakness in other currencies, the lack of attractive domestic investment opportunities and high unemployment. Japan, too, has been criticized in this respect, as well as for its reluctance to open up its financial markets to overseas investment. Seeing the need for Europe and Japan to take on more of the burden of sustaining global growth, the U.S. at the Summit will be a strong advocate of an easing of restrictive national economic policies (on the U.S. pattern, of course).

But European leaders are resisting pressure from the U.S. to reflate their economies. They fear a rapid inflow of Japanese and U.S. goods if the dollar weakens while at the same time their export markets decline. Further, the memory of the negative results of the French reflation attempt in 1981 is still fresh in their minds. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (4/10/85)	156,108	− 690	+13,720
New York City (4/17/85)	32,987	+ 405	+ 4,399
Commercial Paper (4/17/85)	251,997	+ 2,933	+45,374

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/10/85)	254,346	− 1,983	+ 19,542
New York City (4/17/85)	61,926	+ 716	− 54

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/10/85)	664,486	− 3,903	+ 67,419
New York City (4/17/85)	147,299	+ 5,104	+ 12,664

Financial Markets

	Friday 4/26/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.04%	− .01	− 1.91
180-Day Bills†	8.47	+ .07	− 1.98
Longest Bills†	8.90	+ .05	− 2.10
Recent Issues:			
$9^{3}/_{4}$s 4/30/87 (When Issued)	9.89	NA	
$11^{1}/_{4}$s 3/31/89	10.64	+ .17	
$11^{1}/_{4}$s 2/15/95	11.34	+ .20	
$11^{1}/_{4}$s 2/15/15	11.42	+ .17	
Municipals:			
Bond Buyer—20 Bond Index* (4/25/85)	9.39%	+ .14	− .55
Blue List Total ($ Million)	$1,542	+$ 314	− $ 43
30-Day Visible Supply ($ Million)	$4,330	+$1,161	+ $1,807
Total	$5,872	+$1,475	+ $1,764
Corporates:			
Moody's Aa Composite (4/25/85)	12.60%	+ .05	− 1.01
30-Day Visible Supply ($ Million)	$ 360	−$ 485	− $1,345
Stocks:			
Dow-Jones Averages:			
Industrials	1,275.18	+ 8.62	+ 106.11
Transportation	586.25	+ 1.33	+ 88.51
Utilities	154.75	− .46	+ 29.36
65 Stocks	513.98	+ 2.10	+ 60.04
Standard and Poor's 500 Stocks	182.18	+ 1.07	+ 22.29
N.Y.S.E. Composite Index	105.52	+ .52	+ 13.58
N.Y.S.E. Avg. Daily Vol. for Week (000's)	96,914	+ 5,254	+ 10,768

* 46% Taxable equivalent 17.39%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 4/26/85	Week Ago
Overnight	8.06%	7.75%
1 month	8.31	8.25
3 month	8.56	8.44
6 month	8.94	8.69
1 year	9.63	9.31
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.30%	11.25%
Long Term (7 to 15 yrs.)	11.55	11.50

FOREIGN EXCHANGE SPOT RATES

New York Opening (4/26/85)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01576	63.4500
Canada	.7315	1.3670
Denmark	.08826	11.3300
France	.1040	9.6150
Germany	.3172	3.1530
Italy	.0004966	2013.50
Japan	.003956	252.78
Mexico	.004065	246.00
Netherlands	.2803	3.5675
Switzerland	.3800	2.6315
U.K.	1.2015	.8323

Woodcut illustration from Columbus' letter to the Spanish Court, 1493

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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, MAY 6, 1985

VOLUME XXII, NUMBER 18

Corporate Profits Falter . . .

Reflecting the slowing pace of economic activity, the performance of corporate profits is not what it was earlier in this expansion. The first quarter's pretax earnings were well short of year-ago levels at most companies. But while these lackluster results are surely disappointing to corporate treasurers and shareholders, such performance is not unusual at this stage of the business cycle. The recovery is showing signs of normal aging—as productivity slows and operating costs rise—indicating that the strongest incomes gains are behind us.

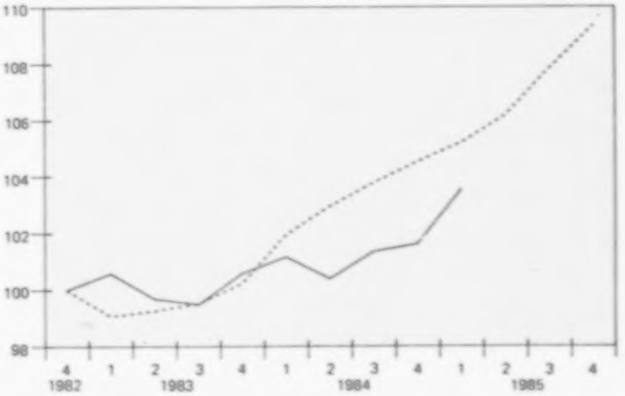
But that's not all. Corporate profits during the last few quarters have been undermined by the overvalued dollar, which was a factor in their $15 billion fall to an estimated $228 billion from $243 billion a year ago. While domestic demand remains healthy, output of the nation's factories has slowed, as production has shifted abroad. American companies have to contend with the ever rising tide of imports, which now amount to more than ten percent of our GNP, adjusted for inflation, up from about 7½ percent just two years ago. By the same token, the strong dollar has hurt the ability of our exporters—from farmers to capital goods manufacturers—to compete in world markets. To make matters worse, the rising dollar has depressed foreign earnings of U.S. multinational companies, when they are translated into dollars.

. . . Reflecting The Business Slowdown . . .

Not only has the swelling tide of imports taken away market share here in the United States, it has also prevented U.S. companies from beefing up profit margins by raising prices—as they have done during past expansions. In fact, many have been forced to shave prices to remain competitive with their overseas rivals. Thus, with all other avenues closed, cost containment remains the primary controllable variable by which U.S. companies can improve the bottom line.

Thus far in the recovery, this approach has been successful. For example, the rise in unit labor costs—which represent two-thirds of total business costs—has been much slower than the average of the five previous postwar recoveries that lasted this long (see chart). It has been accomplished mainly by businessmen keeping a tight rein on wages and salaries for unionized as well as for nonunionized workers. Although productivity gains in this recovery have been somewhat weaker than normal, efficiency in the work place has nevertheless improved, as companies modernized production facilities, closed inefficient plants thus lowering break-even points.

UNIT LABOR COSTS FOR PRIVATE BUSINESS SECTOR
CURRENT RECOVERY (LINE) VS. AVG. OF 5 PRIOR RECOVERIES (DOT)
(TROUGH=100)



. . . And The Strong Dollar . . .

In the first quarter, unit labor costs suffered a setback. A steeper rise in per-hour compensation abetted by a 1.9 percent month-over-month decline in business productivity pushed unit labor costs up at a whopping 7.8 percent annual rate from 1984's fourth quarter. Durable goods manufacturers were more successful in controlling costs as productivity gains outstripped increases in worker compensation, keeping unit labor costs three percent below their high point in late 1982.

While the first quarter rise in unit labor costs was the sharpest in almost three years, it does not necessarily portend the beginning of an upward spiral in the rate of inflation. True, as capacity becomes more fully utilized and companies hire less experienced workers, the pressures on costs could intensify. However, the earlier record burst in capital spending on durable equipment should

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continue to provide a sizable boost to productivity. Additionally, labor settlements are not likely to depart significantly from the recent trend of modest wage increases.

. . . But Costs Stay In Check

While labor settlements in the first quarter of 1985 were somewhat more generous than last year's, they were still substantially less than the gains labor won the last time the same parties bargained—generally two to three years ago. One out of five of those workers who bargained had to settle for no increase in the first contract year while some others even gave pay concessions. The second quarter's settlements are likely to be less generous because the bargaining muscle of the major labor groups involved—apparel, electrical products and construction—has been weakened by slowing economic growth, the strong dollar or both.

While it is book profits that receive the most attention, the improved quality of earnings may provide some solace to company treasurers. A look beneath the surface suggests that U.S. companies may not be faring as poorly as the top-line numbers suggest. Profits from current production—a more reliable gauge of profitability in today's circumstances because they are adjusted to reflect capital depreciation more accurately and they eliminate the effects of inflation on inventories—have been growing vigorously. These are believed to have risen to $298 billion last quarter, up 7½ percent from a

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 5/1/85	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	180.756	+ 8.484	+10.455
Loans to Depository Inst.	1.272	+ .154	+ .243
Float	.121	− .487	− .445
Total Reserve Bank Credit	195.066	+ 8.889	+13.313
Treasury Deposits with			
Federal Reserve Banks	16.463	+10.447	+ .996
Currency in Circulation	180.477	− .339	+ 9.981
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	115.532	− 1.154	+ .163
	4/24/85		
Member Bank Reserves:			
Total Reserves Held	41.904	+ 1.099	+ 3.935
Excess (Deficiency)	.897	+ .340	+ .329
Net Free Reserves	.505	+ .428	+ 1.125
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M1 (4/22/85)	576.2	+ 8.8‡	+ 6.7‡
M2 (March '85)	2,429.3	+ 9.8	+ 9.0
M3 (March '85)	3,055.4	+ 8.1	+ 10.5
Domestic Nonfinancial Debt (4th Q'84)	5,970.8	+ 14.4	+ 13.6

†Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 5/3/85	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.65%	7.90%	8.10%
* Federal Agencies	7.85	8.45	9.05
* Project Notes—Taxfree (46% Taxable Equivalent)	9.72	9.72	9.72
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.21	8.42	9.13

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	8.15%	Jun.	8.10%
15- 29 days	8.15	Jul.	8.10
30- 59 days	8.15	Aug.	8.10
60- 89 days	8.15	Sep.	8.15
90-179 days	8.20	Oct.	8.15
180-239 days	8.20	Nov.	8.15
240-270 days	8.25		

‡Industrial Paper—Prime			
30- 89 days	8.10%	†Federal Funds Effective Rate	8.35%
90-120 days	8.10		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

		Latest Period or End of Period	Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'85	$ 3,820	$ 3,759	$ 3,553
Gross National Product (1972 Dollars)*	1st Q'85	$ 1,668	$ 1,662	$ 1,611
Percent Change, Annual Rate	1st Q'85	1.3	4.3	10.1
Change in Consumer Prices*	Mar '85	6.0%	3.6%	3.6%
Change in Producer Prices*	Mar '85	2.4%	− 1.2%	6.0%
Civilian Employment (Thousands of Persons)†	Apr '85n	106,945	107,119	104,402
Unemployment as % of Civilian Labor Force†	Apr '85n	7.3%	7.3%	7.8%
Personal Income*	Mar '85	$ 3,156	$ 3,140	$ 2,941
Leading Indicators Composite Index (1967=100)†	Mar '85n	167.1	167.5	167.2
Industrial Production Index (1967=100) †	Mar '85	165.4	164.9	160.8
Net Change in Consumer Installment Credit †	Feb '85	$ 10.37	$ 7.22	$ 6.19
U.S. Merchandise Trade Balance †	Mar '85n	−$ 11.05	−$ 11.45	−$ 10.27
Plant and Equipment Expenditures*	2nd Q'85	$388.86(a)	$380.05(a)	$348.34
Private Housing Starts (Thousands of Units)*	Mar '85	1,895	1,631	1,700
New Construction Expenditures*	Mar '85n	$ 324.2	$ 323.8r	$ 309.7
Total Business Inventories †	Feb '85	$ 576.9	$ 574.8	$ 531.9
Total Business Sales †	Feb '85	$ 419.2	$ 418.3	$ 402.4r

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

year ago; they have nearly doubled since the start of the current recovery. During the first nine quarters of five earlier postwar expansions, an average gain of only 55 percent was recorded. Due to low rates of inflation and more careful stock monitoring, inventory profits now comprise the smallest proportion of pretax profits in almost 20 years. After reaching their most recent high of over 22 percent of profits in early 1980, inventory profits now represent less than one percent.

Some industries fared well during the first quarter. For example, the telecommunications industry posted healthy sales gains. Combined with reduced labor costs and the introduction of other cost-saving technology, the industry was able to post good-sized increases. Similarly, health care, lodging and publishing industries registered advances.

On the other hand, most manufacturing firms continued to suffer. Overcapacity and stagnant prices plague the chemical industry as the strength of the dollar has cut into export markets and caused a sharp upturn in imports. The big oil companies saw profits sag as demand slowed in the U.S. and the strong dollar kept prices high for holders of foreign currencies. Finally, the steel industry is still awaiting a return to profitability, despite dramatically lower break-even points and reduced capacity. Cheap imports are still displacing a large part of domestic production, postponing the recovery in this industry well into the future.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since	
		Week Ago	Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (4/17/85)	155,608	– 439	+13,956
New York City (4/24/85)	33,441	+ 460	+ 4,643
Commercial Paper (4/24/85)	254,531	+ 2,534	+45,050

Bank Loans

(Millions of Dollars)

	Commercial and Industrial Loans		
	Latest Week	Change Since	
Weekly Reporting Large Commercial Banks		Week Ago	Year Ago
Nationwide (4/17/85)	254,780	+ 412	+ 17,985
New York City (4/24/85)	61,240	– 686	– 369

	Total Loans and Leases Gross Adjusted		
	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (4/17/85)	671,011	+ 6,719	+ 67,703
New York City (4/24/85)	144,752	– 1,792	+ 9,912

Financial Markets

	Friday 5/3/85	Change Since	
		Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.90%	– .14	– 2.16
180-Day Bills†	8.30	– .17	– 2.40
Longest Bills†	8.70	– .20	– 2.45
Recent Issues:			
9 3/4s 4/30/87	9.70	– .19	
11 1/4s 3/31/89	10.45	– .19	
11 1/4s 2/15/95	11.15	– .19	
11 1/4s 2/15/15	11.30	– .12	
Municipals:			
Bond Buyer–20 Bond Index* (5/2/85)	9.37%	– .02	– .62
Blue List Total ($ Million)	$1,587	+ $ 45	+ $ 34
30-Day Visible Supply ($ Million)	$3,838	– $492	+ $1,308
Total	$5,425	– $447	+ $1,342
Corporates:			
Moody's Aa Composite (5/2/85)	12.61%	+ .01	– 1.15
30-Day Visible Supply ($ Million)	$1,135	+ $775	– $ 870
Stocks:			
Dow-Jones Averages:			
Industrials	1,247.24	– 27.94	+ 81.93
Transportation	584.48	– 1.77	+ 76.87
Utilities	154.95	+ .20	+ 28.46
65 Stocks	507.12	– 6.86	+ 51.15
Standard and Poor's 500 Stocks	180.08	– 2.10	+ 20.97
N.Y.S.E. Composite Index	104.18	– 1.34	+ 12.43
N.Y.S.E. Avg. Daily Vol. for Week (000's)	101,046	+ 4,132	+ 4,754

* 46% Taxable equivalent 17.35%.

† Bond equivalent.

International Rates

	Friday 5/3/85	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	8.13%	8.06%
1 month	8.31	8.31
3 month	8.50	8.56
6 month	8.80	8.94
1 year	9.31	9.63
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.25%	11.30%
Long Term (7 to 15 yrs.)	11.40	11.55

FOREIGN EXCHANGE SPOT RATES		
New York Opening (5/3/85)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.01559	64.1250
Canada	.7263	1.3769
Denmark	.08734	11.4500
France	.1029	9.7150
Germany	.3136	3.1890
Italy	.0004931	2028.00
Japan	.003949	253.25
Mexico	.004049	247.00
Netherlands	.2777	3.6005
Switzerland	.3740	2.6735
U.K.	1.2125	.8247

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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, MAY 13, 1985

VOLUME XXII, NUMBER 19

Small Business Week . . .

Last week, the nation honored its entrepreneurial spirit with the celebration of Small Business Week. For seven days, attention was given to the establishments that dominate our economy–and our lives–every day of the year. The United States is home to about 14 million small business enterprises, comprising 97 percent of all American companies. Ten million are sole proprietorships, three million are corporations, and one million, partnerships.

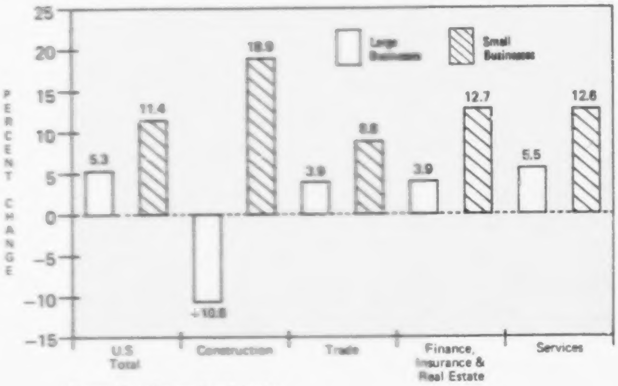
Small companies are deeply rooted in their local communities and neighborhoods and provide entry-level jobs for teenagers, women, minorities and immigrants. In fact, small businesses have become the main driving force behind the nation's economic growth. According to statistics issued by the Small Business Administration, small businesses employ almost half of the nation's private nonfarm workers and generate approximately 38 percent of the gross national product.

The effects of small businesses have not always been so important. Between 1950 and 1970, big companies or government created three out of every four new domestic jobs. However, from 1970 to 1980, small businesses provided most of the 20 million new jobs generated. What is more, this trend has accelerated during the 1980s. Even during 1981 and 1982, when the worst recession in decades caused massive layoffs in the steel, auto and other basic industries, small businesses posted a relatively strong performance, demonstrating their ability to adapt and grow in times of economic adversity. According to the Small Business Administration, between 1980 and 1982 small enterprises with under 20 employees generated over 2.6 million new jobs, more than offsetting the 1.7 million positions lost by larger businesses–a net gain of 982,000 new jobs.

. . . Honors America's Entrepreneurs . . .

The current economic expansion has created opportunities for employment growth for small and large companies alike, but large businesses have not kept up with the employment gains of small companies. As the chart shows, in the two years between October, 1982 and October, 1984, small businesses increased their total employment by 11.4 percent, while large companies increased their payrolls by only 5.3 percent. In the construction industry, small firms posted employment gains of almost 19 percent during this period, compared with a 10.6 percent loss in the number of workers in large firms. Small businesses in the financial sector increased their employment by 12.7 percent, while large institutions added only 3.9 percent to their work force. So, too, small businesses in the service sector added 12.6 percent more jobs during this recovery, while their large counterparts posted an employment gain of only 5.5 percent.

PERCENT CHANGE IN EMPLOYMENT
IN SMALL VS. LARGE BUSINESSES
OF SELECTED INDUSTRIES (OCT. 1984 VS. OCT. 1982)



Source: Small Business Administration

The economic picture that brightened beginning in late 1982 motivated a record number of people to start their own companies. Indeed, an entrepreneurial boom of unprecedented dimensions took place during this business recovery. Estimates by Dun & Bradstreet indicate that business starts (nearly all of them small companies) reached 100,900 in 1983–an 11.1 percent increase over the number of business starts recorded the year before, and well above the previous record of 92,100 in 1981. In 1984, new business starts grew an additional 1.4 percent to a new all-time high of 102,300.

New companies represent a wide spectrum of

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business activities. Perhaps to the surprise of many, high-technology starts comprise only a fraction of total new business formations. Service firms are the fastest growing, with particularly high rates of formation in such areas as financial services, fast foods, legal services, insurance, physical fitness and air transportation. Thus, small businesses are fully participating in the transformation of the U.S. from a goods-producing to an information-based and service-oriented economy. In 1982, according to the Small Business Administration, service firms accounted for 23.4 percent of all small businesses, compared with 19.1 percent in 1976. By contrast, the share of retail trade firms declined during the same period to 29.1 percent in 1982 from 34.4 percent in 1976.

Self-employed workers, who comprise little more than eight percent of the work force nationally, have made a healthy contribution to the United States economic recovery. In 1983, this group increased by 6.6 percent—almost twice as fast as the 3.7 percent rise in wage and salary employment. Although in 1984 the number of people who decided to become their own boss grew by only 2.8 percent, this group still did better financially than those who worked for others. Small-business income, as measured by the revenues of proprietors and partnerships, grew 17 percent in 1984, about twice as fast as the nine percent rise in

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 5/8/85	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	181.295	+ .539	+17.430
Loans to Depository Inst.	.634	– .638	– .464
Float	.743	+ .623	– .149
Total Reserve Bank Credit	195.663	+ .604	+20.253
Treasury Deposits with			
Federal Reserve Banks	12.557	– 3.906	+ 6.906
Currency in Circulation	181.965	+ 1.488	+10.492
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	117.511	+ 1.979	+ 3.416
	5/8/85		
Member Bank Reserves:			
Total Reserves Held	40.563	– 1.333	+ 3.695
Excess (Deficiency)	.807	– .075	+ .215
Net Free Reserves	+ .250	– .240	+ .661

		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M1 (4/29/85)	575.2	+ 8.8‡	+ 6.5‡
M2 (March '85)	2,429.1	+ 9.8	+ 9.0
M3 (March '85)	3,056.0	+ 8.1	+ 10.5
Domestic Nonfinancial Debt (4th Q'84)	5,970.8	+ 14.4	+ 13.6

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 5/10/85	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.70%	7.86%	8.03%
* Federal Agencies	8.05	8.40	8.80
* Project Notes—Taxfree (46% Taxable Equivalent)	9.26	9.44	9.54
Negotiable Time CDs Manufacturers Hanover		Rates By Arrangement	
* Secondary Market—Prime	8.13	8.25	8.90

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	8.00%	Jun.	7.95%
15- 29 days	8.00	Jul.	7.97
30- 59 days	8.00	Aug.	8.00
60- 89 days	8.00	Sep.	8.00
90-179 days	8.03	Oct.	8.02
180-239 days	8.05	Nov.	8.00
240-270 days	8.05		

‡Industrial Paper—Prime			
30- 89 days	8.00%	†Federal Funds	
90-120 days	8.00	Effective Rate	8.06%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'85	$ 3,820	$ 3,759	$ 3,553
Gross National Product (1972 Dollars)*	1st Q'85	$ 1,668	$ 1,662	$ 1,611
Percent Change, Annual Rate	1st Q'85	1.3	4.3	10.1
Change in Consumer Prices*	Mar '85	6.0%	3.6%	3.6%
Change in Producer Prices*	Apr '85n	3.6%	2.4%	0.0%
Civilian Employment (Thousands of Persons)†	Apr '85	106,945	107,119	104,402
Unemployment as % of Civilian Labor Force†	Apr '85	7.3%	7.3%	7.8%
Personal Income*	Mar '85	$ 3,156	$ 3,140	$ 2,941
Leading Indicators Composite Index (1967=100)†	Mar '85	167.1	167.5	167.2
Industrial Production Index (1967=100) †	Mar '85	165.4	164.9	160.8
Net Change in Consumer Installment Credit †	Feb '85	$ 10.37	$ 7.22	$ 6.19
U.S. Merchandise Trade Balance †	Mar '85	–$ 11.05	–$ 11.45	–$ 10.27
Plant and Equipment Expenditures*	2nd Q'85	$388.86(a)	$380.05(a)	$348.34
Private Housing Starts (Thousands of Units)*	Mar '85	1,895	1,631	1,700
New Construction Expenditures*	Mar '85	$ 324.2	$ 323.8	$ 309.7
Total Business Inventories †	Feb '85	$ 576.9	$ 574.8	$ 532.1r
Total Business Sales †	Feb '85	$ 419.2	$ 418.3	$ 402.4

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

wage and salary income for the nation as a whole.

. . . And Innovative Spirit

Small enterprises have traditionally been the major innovators in American business. According to the Small Business Administration, they have introduced 2½ times as many new products as large companies and launched new industries ranging from semiconductors to gene splicing. Even smokestack industries are dependent on entrepreneurial innovation for the streamlining they urgently need to become more competitive. Such labor-saving devices as microprocessors and industrial robots developed by small high-technology firms are crucial in the current efforts to modernize auto assembly plants and steel mills. Moreover, small businesses are a challenge to older, established companies, forcing them to improve their productivity in order to compete. In recognition of this, the Federal Small Business Innovation and Research Program last year made 750 awards to small firms amounting to some $45 million.

From the neighborhood mom-and-pop stores to modern shopping malls, from cottage industries to industrial parks, from the main streets of small towns to fashionable avenues of big cities, small businesses represent the essence of the American economic system: private enterprise, individual initiative, risk-taking and free competition.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (4/24/85)	156,636	+ 997	+14,447
New York City (5/1/85)	33,533	+ 92	+ 4,449
Commercial Paper (5/1/85)	256,285	+ 1,754	+46,129

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/24/85)	253,744	– 1,036	+ 16,699
New York City (5/1/85)	62,063	+ 823	– 192

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/24/85)	667,720	– 2,526	+ 63,541
New York City (5/1/85)	149,229	+ 4,477	+ 12,734

Financial Markets

	Friday 5/10/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.98%	+ .08	– 2.32
180-Day Bills†	8.31	+ .01	– 2.59
Longest Bills†	8.71	+ .01	– 2.84
Recent Issues:			
9¾s 4/30/87	9.60	– .10	
11¼s 3/31/89	10.28	– .17	
11¼s 5/15/95 (When Issued)	11.03	NA	
11¼s 2/15/15	11.18	– .12	
Municipals:			
Bond Buyer–20 Bond Index* (5/9/85)	9.11%	– .26	– 1.08
Blue List Total ($ Million)	$1,679	+ $ 92	+ $194
30-Day Visible Supply ($ Million)	$2,925	– $913	– $132
Total	$4,604	– $821	+ $ 62
Corporates:			
Moody's Aa Composite (5/9/85)	12.59%	– .02	– 1.37
30-Day Visible Supply ($ Million)	$ 635	– $770	– $1,130
Stocks:			
Dow-Jones Averages:			
Industrials	1,274.18	+ 26.94	– 242.96
Transportation	617.03	+ 32.55	+ 114.97
Utilities	159.73	+ 4.78	+ 30.44
65 Stocks	523.45	+ 16.33	+ 69.29
Standard and Poor's 500 Stocks	184.28	+ 4.20	+ 25.79
N.Y.S.E. Composite Index	106.64	+ 2.46	+ 15.41
N.Y.S.E. Avg. Daily Vol. for Week (000's)	107,880	+ 6,834	+ 8,526

* 46% Taxable equivalent 16.87%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 5/10/85	Week Ago
Overnight	8.06%	8.13%
1 month	8.06	8.31
3 month	8.25	8.50
6 month	8.56	8.80
1 year	9.19	9.31
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.10%	11.25%
Long Term (7 to 15 yrs.)	11.30	11.40

FOREIGN EXCHANGE SPOT RATES

New York Opening (5/10/85)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01589	62.9250
Canada	.7246	1.3800
Denmark	.08848	11.3020
France	.1049	9.5350
Germany	.3197	3.1280
Italy	.0005016	1993.50
Japan	.003963	252.33
Mexico	.004049	247.00
Netherlands	.2832	3.5315
Switzerland	.3794	2.6355
U.K.	1.2315	.8120

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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, MAY 20, 1985
VOLUME XXII, NUMBER 20

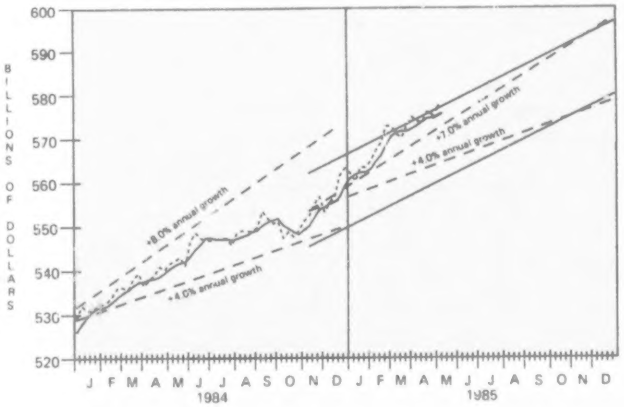
At The Federal Reserve . . .

Despite widespread expectations that the Federal Reserve is about to ease monetary policy, so far at least these hopes have apparently been dashed. To a large extent, this hesitancy stems from the mixed array of business signals being given off by the economy, fears that the rate of inflation may have finally begun to creep higher and still overly rapid M1 money supply growth. There is no doubt that the pace of today's business expansion has indeed slowed—and already has come to a virtual halt for the manufacturing sector of the economy. However, several members of the Fed's Board of Governors have offered widely differing views on both the health of the economy and the appropriate stance of policy—views which will ultimately shape the outcome of this week's Federal Open Market Committee meeting.

While most observers agree that the top policy priority at the Fed is to keep the business expansion on track, pronounced disagreement exists as to where the economy is actually headed. Depending on which day it is, the government statistics mill is either releasing or revising numbers which support almost any view of the economy—ranging from healthy, albeit more modest growth, to so-called "growth recession", to, for some at least, economic contraction. This is because while recent trends in such indicators as consumer spending, auto sales and housing starts point toward an expanding economy, those in such areas as industrial production, factory orders and manufacturing employment—all of which have been soggy since last summer—don't.

Although these numbers fit the general pattern of an economy increasingly split down the middle between a strong, consumption-oriented side and a weak, production-oriented side, it is not all that clear what should be done about it. Since the dichotomy largely reflects the growth-inhibiting effects of a widening trade deficit, which has been years in the making, and the escalating challenge of imports to corporate America, near-term changes in monetary policy, or even lower interest rates for that matter, may not do all that much to remedy the situation. To be sure, lower rates of interest should boost consumer and business confidence. But it is uncertain whether they would remove any of the luster of the dollar in the foreign exchange markets or prompt significant rebounds in such hard-pressed industries as agriculture, energy and steel, to name just a few.

MONEY SUPPLY, M1
FOUR-WEEK MOVING AVERAGE (LINE) VS. WEEKLY FIGURES (DOT)



. . . A Policy Dilemma Arises

Nor do inflation rate trends provide clear-cut clues to the appropriate course of policy—to either credit market participants or policymakers for that matter. To some, the sharp increases in the rate of rise in consumer prices in March and producer prices in April, not to mention the nearly 5½ percent annual rate rise in the GNP deflator in the first quarter, are the opening shots of a deteriorating inflation rate outlook. This implies that the Fed must remain cautious, and temper any move toward ease. However, since a large chunk of the recent rise in the rate of consumer and producer price inflation has been due to a steep upturn in motor gasoline prices—which have already begun to level off—a sustained acceleration in price inflation is unlikely. In fact, as long as the rise in labor costs, which constitute two thirds of all production costs, remains in check, so, too, will the price indexes.

And, here, the news remains good. For example, collective bargaining agreements reached in the first quarter call for initial year wage increases of less than three percent, while the increase in average hourly earnings in the January-March period stood below four percent. These trends hardly point

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toward higher rates of inflation. What is more, despite the March-April uptick in inflation rates, consumer prices during the most recent 12-month period are still advancing at about the same four percent rate that was posted in 1984 as a whole, while producer prices have risen by less than one percent over the most recent 12 months. This suggests that concern over inflation is unlikely to preclude a turn toward ease.

What To Do Next?

If neither business nor price trends provide clear-cut clues to what the Fed should or will do, looking at money supply developments won't help all that much either. For one thing, the M1 money supply has dropped in six of the last ten weeks and currently stands within the wider target bands of permissible money growth—suggesting some room for ease. But over the past 13 weeks, M1 expanded at a nine percent annual rate and is some $5.5 billion above the top end of its narrower four to seven percent, 1985 target cone—suggesting less room for accommodation (see chart on page 1). For another, while the growth of the broader money numbers, M2 and M3 has also been weak recently, it is quite possible that the stepped-up pace of individual income tax refunds may soon bolster their growth, as such refunds find their way into such M2 accounts as money market funds.

To be sure, such contradictory trends in the business, price and money numbers have complicated the

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 5/15/85	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	173.233	− 8.062	+12.111
Loans to Depository Inst.	1.393	+ .759	− 3.220
Float	.574	− .122	+ .563
Total Reserve Bank Credit	187.967	− 7.625	+13.092
Treasury Deposits with			
Federal Reserve Banks	6.883	− 5.674	+ 3.362
Currency in Circulation	182.900	+ .985	+10.732
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	118.116	+ .605	+ 3.738
	5/8/85		
Member Bank Reserves:			
Total Reserves Held	40.550	− 1.351	+ 3.682
Excess (Deficiency)	.722	− .170	+ .130
Net Free Reserves	.165	− .335	+ .576

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (5/6/85)	577.6	+ 9.1‡	+ 6.5‡
M2 (April '85)	2,427.0	+ 4.7	+ 8.3
M3 (April '85)	3,057.5	+ 4.9	+ 9.7
Domestic Nonfinancial Debt (4th Q'84)	5,970.8	+ 14.4	+ 13.6

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 5/17/85	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.40%	7.59%	7.83%
* Federal Agencies	7.84	8.15	8.50
* Project Notes–Taxfree (46% Taxable Equivalent)	9.04	9.07	9.26
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	7.95	8.12	8.55

‡Finance Company Paper–Prime	
5- 14 days	7.85%
15- 29 days	7.85
30- 59 days	7.80
60- 89 days	7.90
90-179 days	7.95
180-239 days	7.95
240-270 days	7.95

‡* Bankers' Acceptances	
Jun.	7.85%
Jul.	7.85
Aug.	7.85
Sep.	7.85
Oct.	7.85
Nov.	7.85

‡Industrial Paper–Prime	
30- 89 days	7.85%
90-120 days	7.85

†Federal Funds Effective Rate 8.24%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'85	$ 3,820	$ 3,759	$ 3,553
Gross National Product (1972 Dollars)*	1st Q'85	$ 1,668	$ 1,662	$ 1,611
Percent Change, Annual Rate	1st Q'85	1.3	4.3	10.1
Change in Consumer Prices*	Mar '85	6.0%	3.6%	3.6%
Change in Producer Prices*	Apr '85	3.6%	2.4%	0.0%
Civilian Employment (Thousands of Persons)†	Apr '85	106,945	107,119	104,402
Unemployment as % of Civilian Labor Force†	Apr '85	7.3%	7.3%	7.8%
Personal Income*	Mar '85	$ 3,156	$ 3,140	$ 2,941
Leading Indicators Composite Index (1967=100)†	Mar '85	167.1	167.5	167.2
Industrial Production Index (1967=100) †	Apr '85n	165.4	165.8r	162.1
Net Change in Consumer Installment Credit †	Mar '85n	$ 8.34	$ 9.04r	$ 5.93
U.S. Merchandise Trade Balance †	Mar '85	−$ 11.05	−$ 11.45	−$ 10.27
Plant and Equipment Expenditures*	2nd Q'85	$388.86(a)	$380.05(a)	$348.34
Private Housing Starts (Thousands of Units)*	Apr '85n	1,913	1,883r	1,949
New Construction Expenditures*	Mar '85	$ 324.2	$ 323.8	$ 309.7
Total Business Inventories †	Mar '85n	$ 578.2	$ 578.9r	$ 538.8
Total Business Sales †	Mar '85n	$ 420.2	$ 418.7r	$ 404.6

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

tasks of those charged with the conduct of monetary policy. Which in itself is not unusual, given the fact that economic indicators usually do turn mixed at this stage of the business cycle. But what is unusual this time around is that few capacity constraints currently exist, price pressures are virtually absent, credit is readily available and interest rates are trending lower—factors which make 1985 look more like the first year of recovery from preceding postwar recessions, rather than the third. If the past was any guide, the central bank would be preparing a turn toward restraint, not ease and the business expansion would be winding down.

Given recent business and price statistics, a switch toward restraint is neither appropriate nor necessary. Which essentially leaves two choices at the Fed's policy-setting FOMC meeting: namely, put further initiatives on hold, and await more convincing economic trends, or ease, cutting the discount rate and trimming the cost of credit. And, while there would seem to be little risk associated with the latter course of action—and substantial benefit if it managed to dampen the dollar's external value—choosing the former course may entail the greater hazard of turning today's economic slowdown into tomorrow's recession. Since the Fed will seek to avoid this at virtually all costs, it would be prudent to look for an overt move toward ease in the not too distant future—a policy which would be more successful if done in tandem with the central banks of other industrial countries.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (5/1/85)	155,443	– 1,215	+12,491
New York City (5/8/85)	33,842	+ 296	+ 4,103
Commercial Paper (5/8/85)	257,501	+ 1,216	+47,099

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/1/85)	254,921	+ 1,177	+ 15,895
New York City (5/8/85)	62,552	+ 489	– 425

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/1/85)	675,049	+ 7,324	+ 66,151
New York City (5/8/85)	147,778	– 1,215	+ 12,557

Financial Markets

	Friday 5/17/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.64%	– .34	– 2.42
180-Day Bills†	8.00	– .31	– 3.05
Longest Bills†	8.42	– .29	– 3.33
Recent Issues:			
$9^{3}/_{4}$s 4/30/87	9.34	– .26	
$11^{1}/_{4}$s 3/31/89	9.98	– .30	
$11^{1}/_{4}$s 5/15/95	10.84	– .19	
$11^{1}/_{4}$s 2/15/15	11.05	– .13	
Municipals:			
Bond Buyer—20 Bond Index* (5/16/85)	8.86%	– .25	– 1.50
Blue List Total ($ Million)	$1,752	+ $ 73	+ $186
30-Day Visible Supply ($ Million)	$2,873	– $ 52	+ $129
Total	$4,625	+ $ 21	+ $315
Corporates:			
Moody's Aa Composite (5/16/85)	12.36%	– .23	– 1.87
30-Day Visible Supply ($ Million)	$1,175	+ $540	+ $ 45
Stocks:			
Dow-Jones Averages:			
Industrials	1,285.34	+ 11.16	+ 151.55
Transportation	622.56	+ 5.53	+ 147.97
Utilities	164.75	+ 5.02	+ 37.44
65 Stocks	529.89	+ 6.44	+ 88.68
Standard and Poor's 500 Stocks	187.42	+ 3.14	+ 31.64
N.Y.S.E. Composite Index	108.48	+ 1.84	+ 18.92
N.Y.S.E. Avg. Daily Vol. for Week (000's)	102,796	– 5,084	+ 19,892

* 46% Taxable equivalent 16.41%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 5/17/85	Week Ago
Overnight	8.06%	8.06%
1 month	8.06	8.06
3 month	8.19	8.25
6 month	8.44	8.56
1 year	8.94	9.19
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	10.60%	11.10%
Long Term (7 to 15 yrs.)	10.90	11.30

FOREIGN EXCHANGE SPOT RATES

New York Opening (5/17/85)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01612	62.0450
Canada	.7297	1.3705
Denmark	.08957	11.1650
France	.1066	9.3850
Germany	.3247	3.0800
Italy	.0005092	1964.00
Japan	.003987	250.83
Mexico	.003906	256.00
Netherlands	.2876	3.4765
Switzerland	.3865	2.5875
U.K.	1.2625	.7921

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- Scott Simpson, defending champion and other top pros from the PGA Tour, will compete for $500,000 in prize money.
- Proceeds help support the following area hospitals: United, Lawrence Auxiliary, New Rochelle, Northern Westchester, Phelps Memorial, St. Agnes, St. John's, St. Joseph's, St. Vincent's, Blythedale Children's, Greenwich, Mount Vernon, White Plains, Yonkers General.
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The Manufacturers Hanover
Financial Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

FRIDAY, MAY 24, 1985
VOLUME XXII, NUMBER 21

Gasoline Prices Should Stabilize

Memorial Day marks the start of the year's peak driving season. If the recent past is any guide, between now and Labor Day motorists will drive some 20 percent more than they did earlier this year. But while the outlook for the summer's gasoline prices is not as rosy for the consumer as it was a year ago when a huge inventory overhang caused prices to plummet counterseasonally, motorists planning cross-country trips this summer need not expect skyrocketing prices, either. Despite the more than seven cent spurt since February, gasoline prices now are still only about one cent higher than they were a year ago, and when inflation is factored out, they are more than three cents lower. What is more, the sharpest price gains are probably behind us as sagging world crude oil prices and plentiful crude oil supplies should keep the summer's gain to no more than the usual seasonal advance.

The Bureau of Labor Statistics reports that energy prices in general and gasoline prices in particular were the major propellants behind last month's rise in the rate of inflation at the retail and producer levels, accounting for more than one half the overall month-over-month rise. So far this year, petroleum companies have been drawing down their inventories instead of importing oil, putting off purchases on the world markets because of expectations of continued price declines. This has tightened crude and petroleum products supplies in the United States causing an abrupt turnaround in prices—especially for gasoline and home heating oil.

Normally, gasoline stocks reach a seasonal low early in the fourth quarter of each year and then expand over the following five months in preparation for the summer driving season. This year's inventories, however, peaked early last December and now have fallen to the lowest level for this time of the year in more than a decade. But refiners say they can respond quickly to any sharp upturn in demand making shortages unlikely. For one thing, having unused production capacity readily available, they can quickly crank up operations. Second, they can buy gasoline on either the domestic or foreign spot market if necessary.

Energy Conservation Continues . . .

To be sure, total domestic consumption of petroleum products dropped by nearly one percent in the first four months of the year from 1984's 15.9 million barrels a day. However, only one major refined product category is responsible for this decline. Demand for residual oil—a heavy oil used primarily for electric power generation and for industrial and commercial space heating—plummeted by 21 percent during the January-April interval, year-over-year. By the end of April, consumption had reached the lowest level in more than 20 years.

PASSENGER CAR EFFICIENCY

Year	Average Miles Traveled per Auto	÷	Average Number of Gallons Consumed per Auto	=	Average Miles Traveled per Gallon
1973	9,992		763		13.1
1978	10,046		715		14.1
1979	9,485		664		14.3
1980	9,135		603		15.1
1981	9,002		579		15.5
1982	9,533		587		16.3
1983	9,641		577		16.7
1984(e)	9,817		569		17.3
1985(f)	10,008		568		17.6

(e) — estimate
(f) — forecast
Sources: Federal Highway Administration; MH estimate

This is because industrial companies—a growing number of which are more flexible in the type of fuel they can use—have been switching to fuels other than petroleum. Over the past several years, many companies have installed dual fuel boilers which enable them to take prompt advantage of changes in fuel prices. Electric utilities accounted for most of the drop in demand for residual fuel despite stepped-up electricity generation, substituting coal for petroleum. Residual fuel is by far the most expensive input used for electricity generation. On average, residual fuel cost the nation's utilities $4.81 per million BTUs in 1984—up from $4.58 in 1983. Coal, however, cost $1.66 and natural gas $3.58 per million BTUs. In response, petroleum's share of

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inputs fell from nearly 18 percent in 1973 to less than five percent today while coal's share rose to 55 percent from 44 percent over the same period.

. . . As Users Become More Efficient

Although all other major refined petroleum product categories posted year-over-year increases, it is clear that conservation efforts adopted over the past decade remain an important part of the energy picture. To illustrate, while in the fourth quarter of 1984 inflation-adjusted GNP went up 5.7 percent year-over-year, total energy consumption fell one percent. That means that we are using less and less energy—petroleum, natural gas, coal and others—to produce the same level of output. In the fourth quarter of last year, only about 43,200 BTUs were needed to produce one dollar of real GNP, down from 46,100 the year before. By contrast, in 1973 it took more than 59,000 BTUs.

Reflecting consumers' improving financial positions and the still relatively low cost of gasoline, motorists have been heading for the highways more than they have in the past several years. However, the stepped-up efficiency of the nation's passenger car fleet has once again blunted the rise in gasoline demand. Although the average age of all cars on the road has risen to 7.5 years—the oldest in almost 35 years—the average number of miles traveled per gallon of fuel consumed is estimated to have increased by more than a third since 1973 (see table on page 1).

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 5/22/85	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	172.718	– .515	+15.682
Loans to Depository Inst.	1.474	+ .081	– 2.272
Float	.541	+ .001	+ .102
Total Reserve Bank Credit	186.007	– 1.960	+16.845
Treasury Deposits with Federal Reserve Banks	3.138	– 3.745	– .882
Currency in Circulation	183.037	+ .137	+11.212
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	119.187	+ 1.071	+ 5.537
	5/22/85		
Member Bank Reserves:			
Total Reserves Held	40.635	+ .102	+ 3.815
Excess (Deficiency)	.818	+ .115	+ .199
Net Borrowed Reserves	.247	+ .393	– 3.279
		% Change Since Three Months Ago*	**% Change Since Year Ago**
Monetary Aggregates†			
M1 (5/13/85)	577.8	+ 8.6‡	+ 6.6‡
M2 (April '85)	2,427.0	+ 4.7	+ 8.3
M3 (April '85)	3,057.5	+ 4.9	+ 9.7
Domestic Nonfinancial Debt (4th Q'84)	5,970.8	+ 14.4	+ 13.6

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 5/24/85	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.15%	7.35%	7.60%
* Federal Agencies	7.60	7.70	8.35
* Project Notes—Taxfree (46% Taxable Equivalent)	9.26	8.52	9.26
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	7.62	7.82	8.35

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	7.50%	Jun.	7.55%
15- 29 days	7.50	Jul.	7.55
30- 59 days	7.50	Aug.	7.55
60- 89 days	7.60	Sep.	7.60
90-179 days	7.65	Oct.	7.65
180-239 days	7.65	Nov.	7.65
240-270 days	7.65		

‡Industrial Paper—Prime			
30- 89 days	7.48%	†Federal Funds	
90-120 days	7.55	Effective Rate	7.50%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'85	$ 3,817r	$ 3,759	$ 3,553
Gross National Product (1972 Dollars)*	1st Q'85	$ 1,665r	$ 1,662	$ 1,611
Percent Change, Annual Rate	1st Q'85	0.7r	4.3	10.1
Change in Consumer Prices*	Apr '85n	4.8%	6.0%	4.8%
Change in Producer Prices*	Apr '85	3.6%	2.4%	0.0%
Civilian Employment (Thousands of Persons)†	Apr '85	106,945	107,119	104,402
Unemployment as % of Civilian Labor Force†	Apr '85	7.3%	7.3%	7.8%
Personal Income*	Apr '85n	$ 3,174	$ 3,156r	$ 2,969
Leading Indicators Composite Index (1967=100)†	Mar '85	167.1	167.5	167.2
Industrial Production Index (1967=100) †	Apr '85	165.4	165.8	162.1
Net Change in Consumer Installment Credit †	Mar '85	$ 8.34	$ 9.04	$ 5.93
U.S. Merchandise Trade Balance †	Mar '85	–$ 11.05	–$ 11.45	–$ 10.27
Plant and Equipment Expenditures*	2nd Q'85	$388.86(a)	$380.05(a)	$348.34
Private Housing Starts (Thousands of Units)*	Apr '85	1,913	1,883	1,949
New Construction Expenditures*	Mar '85	$ 324.2	$ 323.8	$ 309.7
Total Business Inventories †	Mar '85	$ 578.2	$ 578.9	$ 538.8
Total Business Sales †	Mar '85	$ 420.2	$ 418.7	$ 404.6

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

Thus, a three percent increase in the number of miles driven in the first three months of the year has translated into only a 1.8 percent rise in gasoline demand compared with a year ago. Undoubtedly, the sharp rebound in automobile sales since 1983 has helped accelerate the rise in fuel efficiency despite carbuyers' renewed interest in larger cars. Mileage for new cars only—domestic and foreign—has nearly doubled over the past decade to an expected 27½ miles per gallon in 1985 models.

Homeowners are not turning up their thermostats, either. Distillate fuel demand, which includes primarily home heating oil and diesel fuel, rose by only one percent in the first four months of the year from a year ago, despite below-normal temperatures during the early winter months and lower heating oil prices. In fact, while it was 14 percent colder during January and February (measured by population-weighted heating degree-days) than in the previous year, heating oil sales rose less than six percent during this period.

Finally, air travel is up, sparked by generous giveaway programs, low airfares and increased overseas travel—a result of the strong dollar. Domestic airlines have flown 13 percent more miles in the first three months of 1985 than during the same time last year. Nevertheless, demand for jet fuel rose only 2.8 percent from year-earlier levels reflecting, once again, the improved efficiency of the nation's air fleet.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (5/8/85)	155,930	+ 511	+10,627
New York City (5/15/85)	34,001	+ 159	+ 3,604
Commercial Paper (5/15/85)	258,253	+ 752	+44,479

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/8/85)	255,807	+ 916	+ 14,416
New York City (5/15/85)	62,048	– 504	– 1,530

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/8/85)	672,040	– 2,727	+ 64,039
New York City (5/15/85)	152,958	+ 5,238	+ 16,071

Financial Markets

	Friday 5/24/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.39%	– .25	– 2.61
180-Day Bills†	7.75	– .25	– 3.45
Longest Bills†	8.15	– .27	– 3.80
Recent Issues:			
9 1/8s 5/31/87 (When Issued)	9.13	NA	
11 1/4s 3/31/89	9.75	– .23	
11 1/4s 5/15/95	10.55	– .29	
11 1/4s 2/15/15	10.83	– .22	
Municipals:			
Bond Buyer—20 Bond Index* (5/23/85)	8.91%	+ .05	– 1.92
Blue List Total ($ Million)	$1,892	+ $140	+ $312
30-Day Visible Supply ($ Million)	$3,185	+ $312	+ $489
Total	$5,077	+ $452	+ $801
Corporates:			
Moody's Aa Composite (5/23/85)	12.12%	– .24	– 2.19
30-Day Visible Supply ($ Million)	$ 508	– $667	– $ 2
Stocks:			
Dow-Jones Averages:			
Industrials	1,301.97	+ 16.63	+ 194.87
Transportation	627.55	+ 4.99	+ 164.79
Utilities	161.98	– 2.77	+ 38.43
65 Stocks	533.55	+ 3.66	+ 103.27
Standard and Poor's 500 Stocks	188.29	+ .87	+ 36.67
N.Y.S.E. Composite Index	108.87	+ .39	+ 21.75
N.Y.S.E. Avg. Daily Vol. for Week (000's)	112,944	+10,148	+ 28,616

* 46% Taxable equivalent 16.50%.

† Bond equivalent.

International Rates

	Friday 5/24/85	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	7.38%	8.06%
1 month	7.75	8.06
3 month	7.94	8.19
6 month	8.25	8.44
1 year	8.75	8.94
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	10.32%	10.60%
Long Term (7 to 15 yrs.)	10.85	10.90

FOREIGN EXCHANGE SPOT RATES

New York Opening (5/24/85)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01614	61.9450
Canada	.7293	1.3711
Denmark	.09013	11.0950
France	.1065	9.3875
Germany	.3248	3.0785
Italy	.0005085	1966.50
Japan	.003986	250.85
Mexico	.003968	252.00
Netherlands	.2880	3.4720
Switzerland	.3859	2.5915
U.K.	1.2655	.7902

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- Scott Simpson, defending champion and other top pros from the PGA Tour, will compete for $500,000 in prize money.
- Proceeds help support the following area hospitals: United, Lawrence Auxiliary, New Rochelle, Northern Westchester, Phelps Memorial, St. Agnes, St. John's, St. Joseph's, St. Vincent's, Blythedale Children's, Greenwich, Mount Vernon, White Plains, Yonkers General.
- Tickets on sale at all these hospitals through June 2, thereafter at the gate. To charge with MasterCard or VISA call 212-808-8513.
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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, JUNE 3, 1985
VOLUME XXII, NUMBER 22

The U.S. Trade Deficit . . .

Last week's announcement by the Department of Commerce of another monthly U.S. trade deficit of $11.9 billion for April—the third highest ever—is further confirmation, if any is needed, that again a record annual trade deficit is in the making. The cumulative deficit for the first four months of this year has reached $44.6 billion, 6.2 percent ahead of last year's pace for the same period. Should recent trends continue, the U.S. trade deficit could expand to perhaps $120 billion after $108 billion last year (customs valuation).

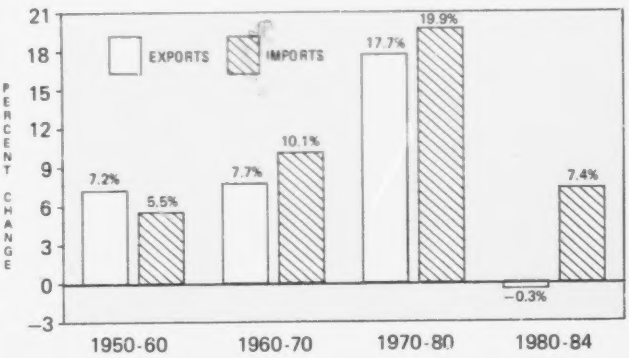
Although rising imports have received the wider attention, stagnant exports have contributed more to America's trade woes in the last five years than a flood of imports. While imports did rise a phenomenal 26.2 percent last year, the average annual growth rate of imports between 1980—when the dollar started to soar—and 1984 has been only 7.4 percent. This is just slightly higher than the 5.5 percent average annual increase in the decade of the 1950s, when U.S. dominance in global trade was unchallenged, and much lower than the 19.9 percent annual average in the inflation-ridden 1970s.

What has changed significantly, however, is that since 1980 U.S. exports have virtually ceased to grow (see chart). Even with the 8.7 percent rise in 1984 exports over 1983 the value of U.S. exports last year was still below the level of 1980. Had exports grown since 1980 at over eight percent annually, which is slightly more than the average annual rate of 7.2 percent of the 1950s and well below the 17.7 percent rate of the 1970s, then the 1984 U.S. trade deficit would have been lower than it was in 1980 ($24.2 billion).

. . . Reflects Stagnant Exports . . .

A pessimistic interpretation of these export developments is that although the U.S. continues as the world's mightiest exporter, it is, nonetheless, fast losing its lead to other nations which are more aggressive at exporting. Indeed, in 1960, the value of U.S. exports was five times that of Japan, but this proportion dwindled to only 1.7 times by 1980 and only 1.25 times by last year. Barring unusual trade developments, exports of the two countries could be at parity within five years. What is more, Japan is not the only country whose exports are challenging the U.S. position. For example, four other Asian countries—Hong Kong, Taiwan, Singapore and South Korea—have become adept at exporting both low- and high-tech products. Again looking back to 1960, the value of U.S. exports then was about nine times that of the combined exports of these four countries. But, by 1980, this proportion had fallen to only three times and, by last year, to only two times. Today, these countries' exports stand in relation to U.S. exports where Japan's were just ten years ago.

U.S. EXPORTS VS. IMPORTS
(AVERAGE ANNUAL PERCENT CHANGE FOR SELECTED PERIODS)



A more optimistic appraisal of the sluggishness in U.S. exports is that it merely reflects the temporary strength of the U.S. dollar and transient economic problems in many of the United States' major export markets. As soon as this country's traditional markets revive, U.S. exports should also revive. Indeed, exports to Latin America in 1984 were $10 billion less than in 1980, and nearly $10 billion less to Western Europe as well. Even if this interpretation is accepted, however, economic normalcy in Latin America still appears far off, and economic growth prospects for Europe for the near future are also uncertain. Further, even a weaker dollar might not benefit U.S. exports substantially since high productivity and present wide profit margins will allow Japan and the other "little Japans" of Asia, to

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match falling U.S. export prices and strengthen their position in world markets. This has already happened in the U.S., with Americans buying from Asian suppliers more and more products which this country traditionally produced.

Consider, for instance, non-automotive capital goods, which is the most important category of U.S. exports and in which the U.S. has had the greatest competitive advantage historically. For this category, the U.S. trade surplus has shrunk dramatically—from $43 billion in 1980 to only $12 billion last year—reflecting virtually unchanged capital goods exports at $72 billion, and more than a doubling of imports, to $60 billion. In the second most important U.S. export category—non-fuel industrial raw material supplies that go into the manufacture of many finished products—the traditional U.S. surplus, which amounted to $15 billion in 1980, swung into a deficit exceeding $9 billion last year, reflecting a drop in exports and a strong rise in imports.

. . . And A Narrowing High-Tech Lead

Perhaps most disturbing to the U.S. in international trade is the erosion of its position in high-technology products. Since World War II the United States has enjoyed the benefit of being the world's leading high-tech exporter. And these products, which embody large amounts of research and development costs or require large numbers of engineers or

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 5/29/85	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	172.586	− .132	+11.876
Loans to Depository Inst.	1.174	− .300	− 1.834
Float	.487	− .104	+ .093
Total Reserve Bank Credit	185.745	− .305	+13.546
Treasury Deposits with Federal Reserve Banks	3.245	+ .107	− .087
Currency in Circulation	183.967	+ .930	+11.314
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	120.328	+ 1.141	+ 6.811
	5/22/85		
Member Bank Reserves:			
Total Reserves Held	40.702	+ .175	+ 3.882
Excess (Deficiency)	.842	+ .140	+ .223
Net Borrowed Reserves	.223	+ .368	− 3.304

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (5/20/85)	582.3	+ 8.6‡	+ 6.8‡
M2 (April '85)	2,427.6	+ 4.8	+ 8.3
M3 (April '85)	3,057.4	+ 4.9	+ 9.7
Domestic Nonfinancial Debt (4th Q'84)	5,970.8	+ 14.4	+ 13.6

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 5/31/85	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.16%	7.27%	7.49%
* Federal Agencies	7.46	7.72	8.27
* Municipal Notes—High Grade (46% Taxable Equivalent)	8.70	8.80	8.80
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	7.53	7.68	8.13

‡ Finance Company Paper—Prime	
5- 14 days	7.35%
15- 29 days	7.35
30- 59 days	7.35
60- 89 days	7.40
90-179 days	7.48
180-239 days	7.55
240-270 days	7.55

‡* Bankers' Acceptances	
Jun.	7.50%
Jul.	7.50
Aug.	7.50
Sep.	7.50
Oct.	7.50
Nov.	7.50

‡ Industrial Paper—Prime	
30- 89 days	7.45%
90-120 days	7.45

† Federal Funds Effective Rate	7.52%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'85	$ 3,817	$ 3,759	$ 3,553
Gross National Product (1972 Dollars)*	1st Q'85	$ 1,665	$ 1,662	$ 1,611
Percent Change, Annual Rate	1st Q'85	0.7	4.3	10.1
Change in Consumer Prices*	Apr '85	4.8%	6.0%	4.8%
Change in Producer Prices*	Apr '85	3.6%	2.4%	0.0%
Civilian Employment (Thousands of Persons) †	Apr '85	106,945	107,119	104,402
Unemployment as % of Civilian Labor Force †	Apr '85	7.3%	7.3%	7.8%
Personal Income*	Apr '85	$ 3,174	$ 3,156	$ 2,969
Leading Indicators Composite Index (1967=100) †	Apr '85n	167.4	167.7r	168.1
Industrial Production Index (1967=100) †	Apr '85	165.4	165.8	162.1
Net Change in Consumer Installment Credit †	Mar '85	$ 8.34	$ 9.04	$ 5.93
U.S. Merchandise Trade Balance †	Apr '85n	−$ 11.85	−$ 11.05	−$ 11.88
Plant and Equipment Expenditures*	2nd Q'85	$388.86(a)	$380.05(a)	$348.34
Private Housing Starts (Thousands of Units)*	Apr '85	1,913	1,883	1,949
New Construction Expenditures*	Mar '85	$ 324.2	$ 323.8	$ 309.7
Total Business Inventories †	Mar '85	$ 578.2	$ 578.9	$ 538.8
Total Business Sales †	Mar '85	$ 420.2	$ 413.7	$ 404.6

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

scientists to produce them, have been considered the area in which this country could be expected to recoup a large part of its export markets.

However, competition from other nations has begun to erode this lead. According to the Department of Commerce, the United States' share of high-technology exports of major industrial nations peaked at 29.7 percent in 1968. The subsequent decline in this share has so far not been large, and U.S. high-tech shipments—including such items as capital equipment (e.g., aircraft, computers, engines), drugs, chemicals, plastics, missiles and such—totaled a sizable $65 billion in 1984, making this country still the world's largest high-tech exporter.

But imports of high-technology products have been a growing problem. As a result, the U.S. surplus in this trade is estimated to have fallen from a high of $23.6 billion in 1981 to less than $5 billion last year. And despite this overall surplus there were large and growing deficits in some products such as semiconductors and components, communications equipment, office machines and consumer electronics, with Japan and other Asian exporters accounting for large parts of these deficits. All this suggests that the U.S. may have to rely upon more than a revival of other economies and a weaker dollar to reinvigorate its external trade. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (5/15/85)	155,519	– 420	+ 8,178
New York City (5/22/85)	33,827	– 174	+ 2,554
Commercial Paper (5/22/85)	260,283	+ 2,030	+43,625

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/15/85)	254,858	– 949	+ 11,916
New York City (5/22/85)	61,765	– 283	– 1,588

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/15/85)	678,974	+ 6,980	+ 67,543
New York City (5/22/85)	147,996	– 5,135	+ 10,522

Financial Markets

	Friday 5/31/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.35%	– .04	– 2.80
180-Day Bills†	7.59	– .16	– 3.56
Longest Bills†	7.93	– .22	– 4.07
Recent Issues:			
9 1/8s 5/31/87	8.66	– .47	
11 1/4s 3/31/89	9.55	– .20	
11 1/4s 5/15/95	10.27	– .28	
11 1/4s 2/15/15	10.57	– .26	
Municipals:			
Bond Buyer—20 Bond Index* (5/30/85)	8.81%	– .10	– 2.26
Blue List Total ($ Million)	$1,954	+ $ 62	+ $ 576
30-Day Visible Supply ($ Million)	$3,736	+ $551	+ $1,560
Total	$5,690	+ $613	+ $2,136
Corporates:			
Moody's Aa Composite (5/30/85)	11.76%	– .36	– 2.71
30-Day Visible Supply ($ Million)	$ 873	+ $365	+ $ 832
Stocks:			
Dow-Jones Averages:			
Industrials	1,315.41	+ 13.44	+ 191.06
Transportation	645.16	+ 17.61	+ 167.07
Utilities	163.32	+ 1.34	+ 38.95
65 Stocks	541.57	+ 8.02	+ 103.24
Standard and Poor's 500 Stocks	189.55	+ 1.26	+ 36.31
N.Y.S.E. Composite Index	109.63	+ .76	+ 21.48
N.Y.S.E. Avg. Daily Vol. for Week (000's)	107,558	– 5,386	+ 19,265

* 46% Taxable equivalent 16.31%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 5/31/85	Week Ago
Overnight	7.50%	7.38%
1 month	7.63	7.75
3 month	7.75	7.94
6 month	8.00	8.25
1 year	8.50	8.75
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	10.15%	10.32%
Long Term (7 to 15 yrs.)	10.65	10.85

FOREIGN EXCHANGE SPOT RATES

New York Opening (5/31/85)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01608	62.2050
Canada	.7260	1.3775
Denmark	.09013	11.0950
France	.1062	9.4125
Germany	.3237	3.0892
Italy	.0005072	1971.50
Japan	.003969	251.97
Mexico	.003597	278.00
Netherlands	.2872	3.4820
Switzerland	.3836	2.6070
U.K.	1.2738	.7851

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- Scott Simpson, defending champion and other top pros from the PGA Tour, will compete for $500,000 in prize money.
- Proceeds help support the following area hospitals: United, Lawrence Auxiliary, New Rochelle, Northern Westchester, Phelps Memorial, St. Agnes, St. John's, St. Joseph's, St. Vincent's, Blythedale Children's, Greenwich, Mount Vernon, White Plains, Yonkers General.
- Tickets on sale at all these hospitals through June 2, thereafter at the gate. To charge with MasterCard or VISA call 212-808-8513.
- For more information call (914) 967-5356.

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The Manufacturers Hanover Financial Digest

Weekly Commentary,
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MONDAY, JUNE 10, 1985
VOLUME XXII, NUMBER 23

The Recovery . . .

The Commerce Department's recently released estimates of personal incomes by state show that in 1984—when inflation-adjusted gross national product expanded at its fastest clip in 33 years—every region of the U.S. enjoyed the benefits of the upturn in business activity, at least to some extent. For the nation as a whole, personal incomes grew 9.7 percent last year, while inflation, as measured by the price deflator for personal consumption expenditures, rose at a modest 3.2 percent pace. As a result, the U.S. enjoyed the strongest gain in purchasing power in two decades.

Rising employment was the primary fuel for the increase in personal incomes. Nonfarm industries added four million workers to their payrolls in 1984 and the average workweek of production workers in the private nonfarm sector climbed to the highest level since 1979. As the recovery broadened across a wide range of industries, even hard-hit farm and industrial states began to revive.

Take, for example, the Midwest. Devastated by the last recession and depressed conditions in the farming sector, the growth in the Plains region's incomes in 1983 trailed all other areas of the country. However, in 1984, the Plains states posted a gain in incomes of 11.3 percent—the strongest advance in the country (see table). Although the agricultural sector experienced only modest relief from several years of distress, subsidy payments from the government's Payment-In-Kind program boosted the region's farm incomes substantially. Moreover, the rebound in such key manufacturing industries as autos and machine tools, helped to fuel overall income growth. Iowa scored the fastest growth of all—both regionally and nationally—followed by South Dakota.

So, too, the Great Lakes region, the other major part of the Midwest, posted a gain in incomes above the national average, benefiting from a robust recovery in the automotive sector and in other durable goods manufacturing industries which are crucial to this region.

. . . Lifts Personal Incomes Nationwide . . .

In the Northeast, New England staged an impressive performance, hardly a surprising result, since the region also enjoyed the lowest unemployment rate in the country. New England's prosperity stems largely from a successful effort to transform the region's economic base from aging traditional manufacturing to the more diversified and growing high-tech and service-oriented industries. Recently, increased defense outlays and a capital spending boom have also contributed to New England's recovery. Electronics manufacturers were big winners as companies sought to modernize operations with the latest high-tech equipment. New Hampshire—which in 1984 posted the lowest unemployment rate in the nation of four percent—outperformed the other states of this region, leading with an income gain of 10.6 percent, followed by Massachusetts with a 10.5 percent advance.

TOTAL PERSONAL INCOMES
UNITED STATES AND REGIONS: 1984 vs. 1983
(billions of dollars)

	Total Personal Income		Percent Change	Percent of U.S. Total
	1983	1984	1984 vs. 1983	1984
United States	$2,734.5	$3,000.8	9.7%	100.0%
Plains	197.2	219.5	11.3	7.3
Great Lakes	478.7	527.6	10.2	17.6
New England	162.7	179.2	10.2	6.0
Southeast	561.6	618.8	10.2	20.6
Southwest	265.1	291.0	9.8	9.7
Far West	446.4	487.7	9.3	16.3
Middle Atlantic	544.4	592.3	8.8	19.7
Rocky Mountain	78.3	84.8	8.2	2.8

Source: U.S. Department of Commerce

Income growth in the Southeast region matched that of New England. The Southeast's income gain was led by the booming economy of Georgia.

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This state's income advanced by better than 12 percent, a result of strong employment gains in financial services, trade, construction and defense industries. Much of the region's strength also came from Florida, which accounted for more than one-fifth of the income generated in this 12-state region. The fast growing high-technology and defense sectors, combined with a booming tourist industry, powered the state's 11.3 percent increase in income. Electrical equipment and other high-tech industries buoyed income growth in North Carolina. In addition, the state's income was augmented by strong residential and business construction, which, in turn, helped its furniture, appliance and textile industries.

On the other hand, the lack of industrial diversification in the economies of Louisiana and West Virginia put a damper on these states' income growth. Louisiana's income posted one of the smallest gains in the nation, underscoring the state's dependence on the slumping energy sector. So, too, West Virginia's income grew only moderately as the state's coal mining industry remained stagnant for the third consecutive year. Not surprisingly, the state had the highest average unemployment rate of all 50 states last year—15.1 percent.

Soft natural resource prices also put a brake on income growth in the Rocky Mountain area—which posted the lowest income gain among the U.S. regions in 1984. This resulted from the slump in oil

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

		$ Change Since	
Reserve Bank Credit	Week Ending 6/5/85	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	173.644	+ 2.536	+24.208
Loans to Depository Inst.	1.861	+ .687	− 1.270
Float	.135	− .352	− .446
Total Reserve Bank Credit	187.242	+ 1.497	+12.941
Treasury Deposits with Federal Reserve Banks	2.400	− .845	− 2.304
Currency in Circulation	184.907	+ .940	+11.165
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	122.203	+ 1.875	+ 8.427
Member Bank Reserves:	6/5/85		
Total Reserves Held	40.592	− .132	+ 4.027
Excess (Deficiency)	.847	− .012	+ .361
Net Free Reserves	.243	+ .449	+ 2.811
		% Change Since	
Monetary Aggregates †		Three Months Ago*	Year Ago
M1 (5/27/85)	584.9	+ 8.6‡	+ 7.1‡
M2 (April '85)	2,427.7	+ 4.8	+ 8.3
M3 (April '85)	3,057.5	+ 4.9	+ 9.7
Domestic Nonfinancial Debt (4th Q'84)	5,970.8	+ 14.4	+ 13.6

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 6/7/85	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.05%	7.14%	7.31%
* Federal Agencies	7.30	7.40	7.75
* Municipal Notes—High Grade (46% Taxable Equivalent)	7.87	7.96	8.06
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	7.30	7.40	7.75

‡ Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	7.40%	Jul.	7.40%
15- 29 days	7.40	Aug.	7.40
30- 59 days	7.35	Sep.	7.35
60- 89 days	7.35	Oct.	7.35
90-179 days	7.35	Nov.	7.35
180-239 days	7.30	Dec.	7.35
240-270 days	7.30		

‡ Industrial Paper—Prime			
30- 89 days	7.33%	† Federal Funds Effective Rate	7.60%
90-120 days	7.30		

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'85	$ 3,817	$ 3,759	$ 3,553
Gross National Product (1972 Dollars)*	1st Q'85	$ 1,665	$ 1,662	$ 1,611
Percent Change, Annual Rate	1st Q'85	0.7	4.3	10.1
Change in Consumer Prices*	Apr '85	4.8%	6.0%	4.8%
Change in Producer Prices*	Apr '85	3.6%	2.4%	0.0%
Civilian Employment (Thousands of Persons) †	May '85n	106,960	106,945	105,162
Unemployment as % of Civilian Labor Force †	May '85n	7.3%	7.3%	7.5%
Personal Income*	Apr '85	$ 3,174	$ 3,156	$ 2,969
Leading Indicators Composite Index (1967=100) †	Apr '85	167.4	167.7	168.1
Industrial Production Index (1967=100) †	Apr '85	165.4	165.8	162.1
Net Change in Consumer Installment Credit †	Mar '85	$ 8.34	$ 9.04	$ 5.93
U.S. Merchandise Trade Balance †	Apr '85	−$ 11.85	−$ 11.05	−$ 11.88
Plant and Equipment Expenditures*	2nd Q'85	$388.86(a)	$380.05(a)	$348.34
Private Housing Starts (Thousands of Units)*	Apr '85	1,913	1,883	1,949
New Construction Expenditures*	Apr '85n	$ 325.7	$ 322.4r	$ 308.6
Total Business Inventories †	Mar '85	$ 578.2	$ 578.9	$ 538.8
Total Business Sales †	Mar '85	$ 420.2	$ 418.7	$ 404.6

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

and gas exploration and uranium mining. Yet, even here an 8.2 percent increase in incomes permitted a sizable gain in buying power.

. . . Yet Wide Differences Persist

Another way of comparing incomes in states and regions is to take into account population size—in other words, on a per capita basis. Here, there is even less uniformity, nationwide. Alaska, for example, can boast of the highest per capita income in the nation. At $17,155, it is $4,448, or 35 percent above the national average. No wonder Alaska attracted new residents and recorded the largest gain in population growth among all states. In 1984, the number of Alaska's residents increased by 4.4 percent, far outdistancing growth in such Sun Belt states as Arizona and Florida. Nevertheless, less than one-quarter of one percent of the U.S. population lives in Alaska, and it was the only state in the nation where per capita income declined in 1984—a result of both the slump in the energy sector and the strong population gain.

The least prosperous state in the nation was Mississippi. At $8,857 per person, its income was almost $4,000, or 30 percent below the national average. At the same low end of the spectrum was Utah, where per capita income was about $3,000, or 24 percent below the U.S. average. Interestingly, the gap between the highest and lowest per capita income states has not narrowed significantly in the last quarter of a century.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (5/22/85)	156,051	+ 432	+ 4,325
New York City (5/29/85)	33,267	– 562	+ 599
Commercial Paper (5/29/85)	260,056	– 228	+45,337

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/22/85)	254,430	– 420	+ 11,600
New York City (5/29/85)	61,419	– 346	– 1,741

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/22/85)	673,886	– 5,238	+ 61,934
New York City (5/29/85)	145,853	– 2,204	+ 6,342

Financial Markets

	Friday 6/7/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.38%	+ .03	– 2.87
180-Day Bills†	7.63	+ .04	– 3.62
Longest Bills†	7.99	+ .06	– 4.01
Recent Issues:			
9 1/8s 5/31/87	8.79	+ .13	
11 1/4s 3/31/88	9.49	– .06	
11 1/4s 5/15/95	10.19	– .08	
11 1/4s 2/15/15	10.53	– .04	
Municipals:			
Bond Buyer–20 Bond Index* (6/6/85)	8.60%	– .21	– 2.18
Blue List Total ($ Million)	$1,778	– $176	+ $ 642
30-Day Visible Supply ($ Million)	$3,520	– $216	+ $1,499
Total	$5,298	– $392	+ $2,141
Corporates:			
Moody's Aa Composite (6/6/85)	11.43%	– .33	– 2.91
30-Day Visible Supply ($ Million)	$ 978	+ $105	+ $ 718
Stocks:			
Dow-Jones Averages:			
Industrials	1,329.64	+ 14.23	+ 198.39
Transportation	659.83	+ 14.67	+ 182.16
Utilities	163.83	+ .51	+ 39.46
65 Stocks	548.10	+ 6.53	+ 108.28
Standard and Poor's 500 Stocks	189.68	+ .13	+ 34.51
N.Y.S.E. Composite Index	109.97	+ .34	+ 20.64
N.Y.S.E. Avg. Daily Vol. for Week (000's)	120,450	+12,892	+ 37,454

* 46% Taxable equivalent 15.90%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 6/7/85	Week Ago
Overnight	7.50%	7.50%
1 month	7.50	7.63
3 month	7.56	7.75
6 month	7.75	8.00
1 year	8.13	8.50
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	10.05%	10.15%
Long Term (7 to 15 yrs.)	10.55	10.65

FOREIGN EXCHANGE SPOT RATES

New York Opening (6/7/85)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01621	61.7000
Canada	.7297	1.3704
Denmark	.09070	11.0250
France	.1072	9.3325
Germany	.3266	3.0618
Italy	.0005119	1953.50
Japan	.004021	248.70
Mexico	.003711	269.50
Netherlands	.2898	3.4505
Switzerland	.3885	2.5740
U.K.	1.2730	.7855

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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, JUNE 17, 1985.

VOLUME XXII, NUMBER 24

The Consumer . . .

Over the past several months, the growth rate of the inflation-adjusted Gross National Product (GNP) has slowed to a crawl, prompting some analysts to believe that recession may be near at hand. But a recession is unlikely—at least in the near term. To be sure, the economy has developed many soft spots, largely due to competition from low-priced imports. But real domestic demand—real GNP less net exports—expanded by a solid four percent in the first quarter compared with 1984's fourth, and its continuing growth should keep the 31-month old recovery moving forward throughout the year.

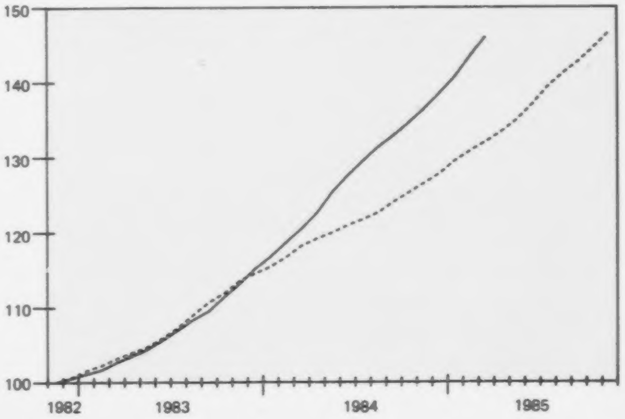
Since consumer spending accounts for nearly two-thirds of GNP, consumer behavior is the key to the economy's performance. And while the outlook for this sector is far from certain, it is more optimistic than the recent numbers suggest. Retail sales have been bumpy since the beginning of this year, posting two monthly declines since January. However, over the past two months, retail sales have been advancing at a nearly nine percent annual rate—despite May's decline—up considerably from the six percent annual rate of rise posted in the first quarter.

Nevertheless, the year-over-year increases have tapered off and retail sales levels are currently only 5.3 percent higher than at this time last year. Just why consumers are holding back on purchases is unclear, because they seem to be well positioned to keep spending at a good pace. For one thing, Americans are enjoying the lowest interest rates in at least five years, with auto loan and mortgage rates now sharply lower. Meanwhile, their buying power continues to improve as inflation remains subdued.

. . . Appears Able And Willing . . .

For another, the job market is strong. More than 1.4 million jobs have been created in the first five months of the year and the Conference Board's Help Wanted Advertising Index is currently more than 11 percent higher than last year. The manufacturing sector has been adversely hurt by foreign competition, but the service sector continues to generate strong job growth. Furthermore, two important industries are still exhibiting a fair amount of strength. Both domestic new-car sales and residential construction are still on the rise. Detroit is selling new cars at an 8½ million unit annual rate so far this year, up from 7.4 million six months ago. During the ten days ending on June 10, domestic producers sold the most cars for this period in five years. Housing starts have climbed by more than 22 percent in the past six months and are running at a solid 1.9 million unit pace—their highest level in over a year.

CONSUMER INSTALLMENT CREDIT OUTSTANDING
CURRENT RECOVERY (LINE), AVG. OF 5 PREVIOUS RECOVERIES (DOT)
(TROUGH=100)



One possible explanation for the more subdued spending pace of the first quarter may be the Internal Revenue Service's well-publicized delays in processing individual income tax refunds earlier this year. With billions of dollars withheld from consumers, some belt tightening may have occurred until refunds arrived. Another reason could be the consumers are waiting for deeper price markdowns. At the end of last year, it was the promotional atmosphere which drew people back to stores.

On the brighter side, there was some benefit to the earlier slowdown in consumer spending. While buyers tightened their purse strings, after-tax incomes jumped at a seven percent annual rate in the first four months of the year. As a result, they were able to replenish their savings accounts, causing the savings rate to rebound to a healthy 5.9 percent of disposable income in April from 3.8 percent in March.

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Spending by consumers is usually influenced by their perceived near-term outlook for the economy in general, and their employment and income prospects in particular. It is thus good to know that the most recent survey conducted by the University of Michigan shows that consumer sentiment is still rosy and buying plans—especially for cars and housing—remain strong. This positive outlook has been underscored by the rapid accumulation of installment debt by consumers. It has expanded by more than 45 percent since the end of the last recession—sharply above the average 32 percent increase posted at this point in the five previous recoveries (see chart on page 1). In the last four months, consumers have taken on an average of $8 billion of new debt per month, but in so doing, boosted the ratio of outstanding installment debt-to-disposable income to 18.1 percent—surpassing the record levels seen in the late 1970s. Then the "buy now before prices go up" psychology prevailed, sending consumers off on a buying and borrowing binge in order to protect themselves against that era's rapid escalation of prices.

. . . To Keep The Expansion Going

Whereas in the past the upward climb of this ratio would have suggested that consumers were getting overextended, this time it may not pose as serious a threat as it once did. Like income, consumers' wealth is also a crucial determinant of consumption patterns. Since the end of the last recession, household financial assets which include demand deposits,

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 6/12/85	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	175.013	+ 1.369	+11.744
Loans to Depository Inst.	.819	− 1.042	− 1.689
Float	1.026	+ .882	+ .556
Total Reserve Bank Credit	188.796	+ 1.530	+14.271
Treasury Deposits with Federal Reserve Banks	2.077	− .323	− 1.234
Currency in Circulation	185.552	+ .645	+11.138
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	120.826	− 1.377	+ 5.380
	6/5/85		
Member Bank Reserves:			
Total Reserves Held	40.630	− .094	+ 4.065
Excess (Deficiency)	.844	− .014	+ .358
Net Free Reserves	.240	+ .447	+ 2.808

		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates †			
M1 (6/3/85)	585.6	+ 8.5‡	+ 7.2‡
M2 (May '85)	2,442.2	+ 3.8	+ 8.4
M3 (May '85)	3,077.4	+ 4.8	+ 9.3
Domestic Nonfinancial Debt (1st Q'85)	6,147.0	+ 11.3	+ 13.6

†Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 6/14/85	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	6.60%	6.85%	7.00%
* Federal Agencies	7.00	7.50	8.00
* Municipal Notes—High Grade (46% Taxable Equivalent)	7.69	7.69	7.87
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	7.40	7.45	7.75

‡Finance Company Paper—Prime	
5- 14 days	7.38%
15- 29 days	7.38
30- 59 days	7.38
60- 89 days	7.38
90-179 days	7.38
180-239 days	7.40
240-270 days	7.40

‡* Bankers' Acceptances	
Jul.	7.30%
Aug.	7.30
Sep.	7.30
Oct.	7.30
Nov.	7.30
Dec.	7.30

‡Industrial Paper—Prime	
30- 89 days	7.25%
90-120 days	7.13

†Federal Funds Effective Rate	7.40%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'85	$ 3,817	$ 3,759	$ 3,553
Gross National Product (1972 Dollars)*	1st Q'85	$ 1,665	$ 1,662	$ 1,611
Percent Change, Annual Rate	1st Q'85	0.7	4.3	10.1
Change in Consumer Prices*	Apr '85	4.8%	6.0%	4.8%
Change in Producer Prices*	May '85n	2.4%	3.6%	− 1.2%
Civilian Employment (Thousands of Persons) †	May '85	106,960	106,945	105,162
Unemployment as % of Civilian Labor Force †	May '85	7.3%	7.3%	7.5%
Personal Income*	Apr '85	$ 3,174	$ 3,156	$ 2,969
Leading Indicators Composite Index (1967=100) †	Apr '85	167.4	167.7	168.1
Industrial Production Index (1967=100) †	May '85n	165.3	165.5r	162.8
Net Change in Consumer Installment Credit †	Mar '85	$ 8.34	$ 9.04	$ 5.93
U.S. Merchandise Trade Balance †	Apr '85	−$ 11.85	−$ 11.05	−$ 11.88
Plant and Equipment Expenditures*	3rd Q'85n	$392.61(a)	$385.31(a)r	$361.12
Private Housing Starts (Thousands of Units)*	Apr '85	1,913	1,883	1,949
New Construction Expenditures*	Apr '85	$ 325.7	$ 322.4	$ 308.6
Total Business Inventories †	Apr '85n	$ 581.3	$ 578.8r	$ 545.9
Total Business Sales †	Apr '85n	$ 425.7	$ 420.8r	$ 408.3

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

savings accounts, stocks and bonds have soared by more than $1 trillion (about one-quarter of which was due to rising stock prices). At the same time, total household debt, which includes mortgages as well as installment debt and outstanding loans, rose only half as much.

Thus, with incomes and assets growing, even the hefty acquisition of mortgage and installment debt in recent months does not necessarily indicate that a retrenchment by consumers is at hand. In fact, they now own $2.21 of financial assets for each dollar of debt outstanding, or ten percent more than at the early 1980 low point. And if the assets-to-debt ratio would fall to the early 1980 level, consumers could borrow for another 10 months at this year's breakneck pace—even if there were no additional financial asset accumulation.

Finally, another important consideration is the changing demographic composition of Americans in general, and the maturation of the "baby-boom" generation in particular. This group has now entered into the high spending and borrowing years. And, according to the Federal Reserve's survey of consumer finances, 55 percent of the people in this age group have outstanding installment debt compared with only 29 percent of those in other age brackets. Similarly, about 85 percent of them are paying off a mortgage, compared with only 40 percent in the other age groups. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (5/29/85)	155,625	– 337	+ 2,208
New York City (6/5/85)	33,530	+ 263	+ 264
Commercial Paper (6/5/85)	260,203	+ 147	+43,924

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/29/85)	253,640	– 747	+ 11,675
New York City (6/5/85)	61,794	+ 375	– 2,324

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/29/85)	670,492	– 3,423	+ 56,895
New York City (6/5/85)	151,388	+ 5,587	+ 13,023

Financial Markets

	Friday 6/14/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	6.84%	– .54	– 3.41
180-Day Bills†	7.17	– .46	– 3.88
Longest Bills†	7.49	– .50	– 4.36
Recent Issues:			
$9\frac{1}{8}$s 5/31/87	8.40	– .39	
$11\frac{1}{4}$s 3/31/89	9.19	– .30	
$11\frac{1}{4}$s 5/15/95	9.90	– .29	
$11\frac{1}{4}$s 2/15/15	10.30	– .23	
Municipals:			
Bond Buyer–20 Bond Index* (6/13/85)	8.66%	+ .06	– 1.93
Blue List Total ($ Million)	$2,130	+$ 352	+ $1,048
30-Day Visible Supply ($ Million)	$2,269	–$1,251	+ $ 273
Total	$4,399	–$ 899	+ $1,321
Corporates:			
Moody's Aa Composite (6/13/85)	11.48%	+ .05	– 2.78
30-Day Visible Supply ($ Million)	$ 818	–$ 160	+ $ 528
Stocks:			
Dow-Jones Averages:			
Industrials	1,300.96	– 28.68	+ 214.06
Transportation	636.94	– 22.89	+ 178.92
Utilities	164.60	+ .77	+ 42.30
65 Stocks	536.93	– 11.17	+ 113.03
Standard and Poor's 500 Stocks	187.10	– 2.58	+ 38.07
N.Y.S.E. Composite Index	108.56	– 1.41	+ 22.39
N.Y.S.E. Avg. Daily Vol. for Week (000's)	97,726	–22,724	+ 20,354

* 46% Taxable equivalent 16.04%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 6/14/85	Week Ago
Overnight	7.25%	7.50%
1 month	7.63	7.50
3 month	7.63	7.56
6 month	7.81	7.75
1 year	8.25	8.13
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	10.10%	10.05%
Long Term (7 to 15 yrs.)	10.60	10.55

FOREIGN EXCHANGE SPOT RATES **New York Opening (6/14/85)**	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01627	61.4800
Canada	.7298	1.3703
Denmark	.09013	11.0950
France	.1076	9.2950
Germany	.3271	3.0575
Italy	.0005140	1945.50
Japan	.004020	248.78
Mexico	.003419	292.50
Netherlands	.2906	3.4440
Switzerland	.3887	2.5725
U.K.	1.2825	.7797

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The Manufacturers Hanover
Financial Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, JUNE 24, 1985
VOLUME XXII, NUMBER 25

Surging Imports . . .

As expected, the current account deficit for the first quarter of this year was close to the record set in the third quarter of 1984. According to the Commerce Department, the first-quarter deficit totaled $30 billion, the second largest on record after the $32.5 billion deficit for the July through September period of last year. That period, however, included the prime tourist season which takes a heavy toll on the services account. However, since 1982, the year in which the current economic upswing began, the first quarter has posted the lowest current account deficit of any quarter of the year. This suggests that if the past three years are any guide, the $30 billion deficit recorded for this year's first quarter may well be just the tip of a massive red-ink iceberg. Indeed, a simple extrapolation of the first quarter deficit would yield an annual current account shortfall of $120 billion, over $18 billion more than last year's $101.5 billion deficit. Based upon these considerations, and with the continuing strength of the dollar expected not only to sustain high import levels, but also to lure some six million Americans just to Western Europe this year, a current account deficit from $130 to $140 billion seems likely.

In the first quarter, the U.S. also registered a merchandise trade deficit (balance-of-payments basis) of a seasonally adjusted $29.4 billion, exceeding the previous quarter's trade deficit by nearly $5 billion. As shown in the table, this is due almost exclusively to the flood of imports in the first quarter ($85.2 billion), which was not offset to any extent by growth in merchandise exports as it had been in most of the previous quarters since 1982—a grim portent for the future. Merchandise exports last quarter were actually $600 million below the fourth quarter level, due to a decline in agricultural exports—mainly reduced shipments of wheat and other grains which the strong dollar has priced out of world markets.

At the same time, the deterioration of the current account deficit between the fourth quarter and the first quarter was virtually the same as the deterioration of the trade deficit. Neither the net services account nor the unilateral transfers account contributed significantly to the current account balance last quarter. Net service receipts fell by $500 million from previous quarter levels, yielding a small $2.6 billion surplus which failed to compensate for the $3.2 billion deficit arising from such unilateral transfers as foreign aid. The traditional large surplus in the services account has all but disappeared over the past two years as interest payments to foreigners have surged.

SELECTED U.S. INTERNATIONAL TRANSACTIONS
Billions of dollars, seasonally adjusted
(Positive entries are inflows, negative ones are outflows)

Account	IVQ 84	IQ 85
Exports of Goods	56.4	55.8
Imports of Goods	–80.9	–85.2
Merchandise Trade Balance	–24.5	–29.4
Exports of Services	35.1	33.6
Imports of Services	–32.0	–31.0
Services Balance	3.1	2.6
Unilateral Transfers	–4.1	–3.2
Current Account Balance	–25.5	–30.0

Both the trade and current account deficits resulted largely from the burst of merchandise imports in the first quarter. What is more, the fact that imports in the first quarter of this year were 5.4 percent above the previous quarter in spite of lackluster real GNP growth (0.3 percent on a seasonally adjusted annual basis) illustrates that imports are not simply increasing in pace with U.S. economic growth, but are displacing U.S. production at an accelerating rate—perhaps permanently.

. . . Widen The External Deficit . . .

There are three ways by which the estimated $130 to $140 billion current account shortfall (like a household deficit) can be financed—by using savings, by selling real assets and by borrowing. The

DIGEST GOES BIWEEKLY

The Financial Digest will be published biweekly during July and August. The next issue will be dated July 8.

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"savings" of the United States are its international reserves which, excluding gold, amounted to just over $21 billion in April. Since international reserves, similar to a savings account, are a source of ready foreign exchange as well as an important measure of creditworthiness, countries are reluctant to draw down a large portion of their international reserves except in cases of dire necessity. Gold holdings are defended even more vigorously and, indeed any substantial sale of gold rapidly depresses the price; hence gold sales to raise large quantities of foreign exchange become a self-defeating process. Further, it is unlikely that the U.S. government would use more than $4 or $5 billion from our foreign exchange and gold stocks at most to finance the current account deficit.

Likewise the sale of U.S. real assets to foreigners can be expected to raise only a limited amount of funds to cover the current account deficit. In 1984, net foreign direct investment in the United States was an estimated $22.5 billion. Assuming that foreign direct investment in the U.S. grows by approximately the same amount this year, and that U.S. international reserves are drawn down by about $5 billion, other U.S. borrowing abroad in 1985 may still exceed $100 billion—which, of course, comes on top of the over $70 billion borrowed in 1984. This borrowing will largely take the form of investments in such debt instruments as Treasury and other securities as well as direct loans to U.S. banks, corporations and individuals from abroad. The massive demand for funds from all sources will add substantially to U.S.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 6/19/85	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	174.355	− .658	+10.706
Loans to Depository Inst.	1.427	+ .608	− 1.994
Float	.769	− .257	+ .015
Total Reserve Bank Credit	188.441	− .355	+11.917
Treasury Deposits with Federal Reserve Banks	2.514	+ .437	− 1.567
Currency in Circulation	185.647	+ .095	+11.372
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	122.401	+ 1.575	+ 8.065
	6/19/85		
Member Bank Reserves:			
Total Reserves Held	42.181	+ 1.580	+ 3.993
Excess (Deficiency)	.641	− 160	− .038
Net Free Reserves	.130	− .067	+ .442
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M1 (6/10/85)	590.6	+ 10.2‡	+ 7.5‡
M2 (May '85)	2,445.0	+ 4.0	+ 8.4
M3 (May '85)	3,077.7	+ 4.8	+ 9.3
Domestic Nonfinancial Debt (1st Q'85)	6,147.0	+ 11.3	+ 13.6

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 6/21/85	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	6.97%	7.20%	7.36%
* Federal Agencies	7.40	7.60	7.85
* Municipal Notes—High Grade (46% Taxable Equivalent)	7.41	7.59	8.15
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	7.45	7.75	8.15

‡Finance Company Paper—Prime	
5- 14 days	7.25%
15- 29 days	7.25
30- 59 days	7.25
60- 89 days	7.20
90-179 days	7.20
180-239 days	7.20
240-270 days	7.20

‡* Bankers' Acceptances	
Jul.	7.45%
Aug.	7.45
Sep.	7.45
Oct.	7.50
Nov.	7.55
Dec.	7.55

‡Industrial Paper—Prime	
30- 89 days	7.25%
90-120 days	7.35

†Federal Funds	
Effective Rate	7.40%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'85	$ 3,811r	$ 3,759	$ 3,553
Gross National Product (1972 Dollars)*	1st Q'85	$ 1,664r	$ 1,662	$ 1,611
Percent Change, Annual Rate	1st Q'85	0.3r	4.3	10.1
Change in Consumer Prices*	May '85n	2.4%	4.8%	2.4%
Change in Producer Prices*	May '85	2.4%	3.6%	− 1.2%
Civilian Employment (Thousands of Persons)†	May '85	106,960	106,945	105,162
Unemployment as % of Civilian Labor Force†	May '85	7.3%	7.3%	7.5%
Personal Income*	May '85n	$ 3,172	$ 3,189r	$ 2,979
Leading Indicators Composite Index (1967=100)†	Apr '85	167.4	167.7	168.1
Industrial Production Index (1967=100) †	May '85	165.3	165.5	162.8
Net Change in Consumer Installment Credit †	Apr '85n	$ 8.27	$ 8.34	$ 6.79
U.S. Merchandise Trade Balance †	Apr '85	−$ 11.85	−$ 11.05	−$ 11.88
Plant and Equipment Expenditures*	3rd Q'85	$392.61(a)	$385.31(a)	$361.12
Private Housing Starts (Thousands of Units)*	May '85n	1,663	1,927r	1,787
New Construction Expenditures*	Apr '85	$ 325.7	$ 322.4	$ 308.6
Total Business Inventories †	Apr '85	$ 581.3	$ 578.8	$ 545.9
Total Business Sales †	Apr '85	$ 425.7	$ 420.8	$ 408.3

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

obligations abroad. Indeed, it has been estimated that early this year the U.S. became a net debtor nation for the first time since 1914. Further, interest payments alone on the U.S. external debt may exceed $100 billion annually by 1989 if foreign borrowing continues at its present pace—a servicing amount alone nearly equivalent in size to the total outstanding external debt of Brazil, the world's largest developing country debtor!

. . . And Retard U.S. Growth

Clearly the trade deficit which has become virtually the equivalent of the current account deficit has reached proportions where active steps to correct the trade imbalance are imperative. Two factors which might reduce the growing trade and current account deficits are a sharp drop in the foreign exchange value of the dollar, making imports less attractive and/or a further slowing of domestic business activity. But this is not occurring; indeed, the "flash" estimate of inflation-adjusted GNP growth in excess of three percent in the second quarter, suggests that the economic expansion, now in its 31st month, may have been reinvigorated by the recent easing of monetary policy. Nonetheless, the widening net export deficit still exerts an enormous drag on the economy. Had net exports during the first quarter of this year remained the same as in the previous quarter, real GNP would have expanded at a seasonally adjusted annual rate of 4.1 percent, rather than the anemic 0.3 percent rate actually posted.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (6/5/85)	155,345	– 262	+ 1,371
New York City (6/12/85)	33,010	– 490	– 884
Commercial Paper (6/12/85)	260,073	– 130	+40,959

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/5/85)	254,005	+ 543	+ 10,708
New York City (6/12/85)	61,277	– 517	– 2,544

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/5/85)	678,215	+ 7,886	+ 64,283
New York City (6/12/85)	151,147	– 248	+ 13,644

Financial Markets

	Friday 6/21/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.22%	+ .38	– 3.11
180-Day Bills†	7.57	+ .40	– 3.84
Longest Bills†	7.90	+ .41	– 4.41
Recent Issues:			
$8^{1}/_{2}$s 6/31/87 (When Issued)	8.80	NA	
$11^{1}/_{4}$s 3/31/89	9.56	+ .37	
$11^{1}/_{4}$s 5/15/95	10.31	+ .41	
$11^{1}/_{4}$s 2/15/15	10.57	+ .27	
Municipals:			
Bond Buyer—20 Bond Index* (6/20/85)	8.69%	+ .03	– 1.87
Blue List Total ($ Million)	$2,094	– $ 36	+ $ 980
30-Day Visible Supply ($ Million)	$2,672	+ $403	+ $ 415
Total	$4,766	+ $367	+ $1,395
Corporates:			
Moody's Aa Composite (6/20/85)	11.35%	– .13	– 3.00
30-Day Visible Supply ($ Million)	$1,353	+ $535	+ $1,081
Stocks:			
Dow-Jones Averages:			
Industrials	1,324.15	+ 23.19	+ 193.00
Transportation	649.58	+ 12.64	+ 174.48
Utilities	168.85	+ 2.25	+ 42.48
65 Stocks	546.44	+ 9.51	+ 107.20
Standard and Poor's 500 Stocks	189.61	+ 2.51	+ 35.15
N.Y.S.E. Composite Index	109.84	+ 1.28	+ 20.77
N.Y.S.E. Avg. Daily Vol. for Week (000's)	102,068	+ 4,342	+ 1,076

* 46% Taxable equivalent 16.09%.

† Bond equivalent.

International Rates

	Friday 6/21/85	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	7.38%	7.25%
1 month	7.44	7.63
3 month	7.63	7.63
6 month	7.88	7.81
1 year	8.38	8.25
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	10.30%	10.10%
Long Term (7 to 15 yrs.)	10.80	10.60

FOREIGN EXCHANGE SPOT RATES

New York Opening (6/21/85)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01609	62.1500
Canada	.7325	1.3652
Denmark	.09079	11.0150
France	.1063	9.4100
Germany	.3243	3.0840
Italy	.0005077	1969.50
Japan	.004023	248.60
Mexico	.003350	298.50
Netherlands	.2876	3.4775
Switzerland	.3879	2.5778
U.K.	1.2745	.7846

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The Manufacturers
Hanover
Financial Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, JULY 8, 1985
VOLUME XXII, NUMBER 26

The Federal Reserve . . .

Within the past three weeks, a flurry of generally upbeat business statistics has heightened speculation that the Federal Reserve is about to put further monetary policy easing initiatives on hold—dimming prospects for further interest rate declines in general, and another cut in the discount rate in particular. But whether such concerns are justified or not appears questionable. For although the economy was estimated to be expanding at a seasonally adjusted 3.1 percent annual rate clip in the second quarter, or well above the anemic 0.3 percent gain posted in the first, and the index of leading economic indicators moved higher in May, the manufacturing sector of the economy remains mired in its own mini-recession.

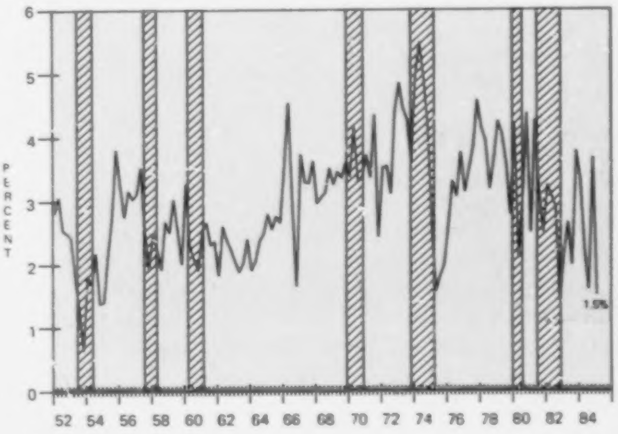
This is because with imports capturing an ever larger chunk of consumer and business spending (Financial Digest—June 24, 1985) industrial production today stands no higher than it did last summer, while manufacturing employment has stagnated. And, with the dollar remaining so strong in the foreign exchange markets, there is little to suggest that this will change anytime soon. As a result, with doubts existing regarding the strength of the business expansion, inflation rate expectations dormant and business credit demands soft, the Fed has little to lose in easing policy further.

While perceptions of the health of the economy may have shifted in recent weeks, it is uncertain whether underlying economic reality has—a question which will be carefully considered at this week's monetary policy-setting Federal Open Market Committee meeting. For although business activity is still expected to rebound over the balance of this year, the surge in imports continues to penetrate evermore deeply into domestic markets and the trade deficit continues to widen. It soared past \$12½ billion in May alone—the second highest monthly trade deficit on record—and, needless to say, at this level represents a severe drag on GNP growth in general, and the health of manufacturing in particular. As long as this trend continues, the improvement in the business outlook largely applies to those industries which are immune from import competition.

. . . Still Has Several Good Reasons . . .

While doubts persist regarding the strength of the business expansion, when it comes to the near-term inflation rate outlook, they are few and far between. Although consumer prices expanded at an almost 4½ percent annual rate clip over the past three months, well above the three percent plus pace of the immediately preceding three-month period, this stemmed primarily from an upturn in energy prices—a temporary event which has already begun to reverse itself. Excluding energy, consumer prices rose at a paltry 2.8 percent annual rate over the past three months—significantly lower than the almost five percent rate of rise posted during both the earlier three-month period, and in 1984 as a whole.

NET EXTERNAL FUNDS RAISED BY
NONFINANCIAL CORPORATIONS AS A PERCENT OF GNP



While some price pressures may build as the year unfolds, this is certainly not assured. Wage settlements are modest, oil prices are softening, foreign product competition remains keen and today's low inflation rate environment itself limits the ability of domestic manufacturers to raise prices. Indeed, it appears a good bet that inflation rates will remain quite modest, removing a major obstacle to additional central bank accommodation.

The Fed thus finds itself able to concentrate on stimulating business activity, with little worry of

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sparking an acceleration in the rate of inflation—enabling it to generously provide reserves to the banking system, guide the key Federal funds rate lower and, on occasion, trim the discount rate. And, while the growth of the M1 money supply has accelerated—expanding at a double-digit annual rate over the past three months—even this may not present that much of an obstacle to ease. Not only is the growth of the M2 and M3 money numbers still within target, but some of the reasons behind the growth of M1 itself may be suspect. For it is still unclear to what extent the current M1 money supply bulge may reflect the tardy distribution of individual income tax refunds, now showing up in deposit balances, or is a harbinger of brisker levels of business activity and an upturn in inflation pressures.

. . . For Easing Monetary Policy Further

But one thing in all this is clear: trends in business credit demands, so often the swing factor in the interest rate outlook, have encouraged lower, rather than higher interest rates. Over the past 13 weeks, for example, outstanding short-term business credit—which includes bank loans and nonfinancial company commercial paper—expanded by less than $6 billion, far below the more than $16½ billion increase registered during the same 1984 period.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 6/26/85	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	175.012	+ .657	+11.124
Loans to Depository Inst.	.735	– .692	– 2.238
Float	.314	– .484	– .492
Total Reserve Bank Credit	188.052	– .438	+11.482
Treasury Deposits with Federal Reserve Banks	3.754	+ 1.240	+ .353
Currency in Circulation	185.150	– .497	+11.129
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	121.759	– .642	+ 4.851
	6/19/85		
Member Bank Reserves:			
Total Reserves Held	42.203	+ 1.589	+ 4.015
Excess (Deficiency)	.719	– .087	+ .040
Net Free Reserves	.208	+ .006	+ .520
		% Change Since Three Months Ago*	**% Change Since Year Ago**
Monetary Aggregates†			
M1 (6/17/85)	589.3	+ 11.3‡	+ 7.7‡
M2 (May '85)	2,444.5	+ 3.9	+ 8.4
M3 (May '85)	3,075.2	+ 4.5	+ 9.3
Domestic Nonfinancial Debt (1st Q'85)	6,147.0	+ 11.3	+ 13.6

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 7/5/85	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	6.81%	6.82%	6.92%
* Federal Agencies	7.02	7.08	7.58
* Municipal Notes—High Grade (46% Taxable Equivalent)	6.94	7.41	7.96
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	7.35	7.45	7.80

‡Finance Company Paper—Prime	
5- 14 days	7.40%
15- 29 days	7.40
30- 59 days	7.40
60- 89 days	7.35
90-179 days	7.30
180-239 days	7.30
240-270 days	7.30

‡* Bankers' Acceptances	
Aug.	7.30%
Sep.	7.30
Oct.	7.30
Nov.	7.30
Dec.	7.30
Jan.	7.25

‡Industrial Paper—Prime	
30- 89 days	7.36%
90-120 days	7.30

†Federal Funds Effective Rate	8.00%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'85	$ 3,811	$ 3,759	$ 3,553
Gross National Product (1972 Dollars)*	1st Q'85	$ 1,664	$ 1,662	$ 1,611
Percent Change, Annual Rate	1st Q'85	0.3	4.3	10.1
Change in Consumer Prices*	May '85	2.4%	4.8%	2.4%
Change in Producer Prices*	May '85	2.4%	3.6%	– 1.2%
Civilian Employment (Thousands of Persons)†	Jun '85n	106,370	106,960r	105,391
Unemployment as % of Civilian Labor Force†	Jun '85n	7.3%	7.3%	7.2%
Personal Income*	May '85	$ 3,172	$ 3,189	$ 2,979
Leading Indicators Composite Index (1967=100)†	May '85n	167.8	166.6r	168.2
Industrial Production Index (1967=100) †	May '85	165.3	165.5	162.8
Net Change in Consumer Installment Credit †	Apr '85	$ 8.27	$ 8.34	$ 6.79
U.S. Merchandise Trade Balance †	May '85n	–$ 12.67	–$ 11.85	–$ 9.28
Plant and Equipment Expenditures*	3rd Q'85	$392.61(a)	$385.31(a)	$361.12
Private Housing Starts (Thousands of Units)*	May '85	1,663	1,927	1,787
New Construction Expenditures*	May '85n	$ 343.5	$ 338.3r	$ 315.7r
Total Business Inventories †	Apr '85	$ 581.3	$ 578.8	$ 545.9
Total Business Sales †	Apr '85	$ 425.7	$ 420.8	$ 408.3

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

Yet, business credit demands have been soft not only when compared with last year, but they have been unusually weak for this stage of the business cycle. As shown in the chart on page 1, net funds raised by nonfinancial corporations in the debt and equity markets in the first quarter of 1985 were equivalent to just 1½ percent of GNP—a level more often associated with the bottom of past recessions (the shaded areas in the chart), not the third year of business expansions.

Although the Fed must remain wary of the longer-term impact of the ballooning Federal deficit, and the apparent inability of the Administration and Congress to hammer out a credible deficit reduction program, while others have wondered how long the central bank will tolerate M^1 money supply growth well above target, these concerns may not be the principal factors affecting the near-term stance of monetary policy. With economic growth rates still sluggish, inflation rates modest, the broader money supply aggregates within target and business credit demands weak, there are few good reasons not to tilt toward further monetary policy ease. If, as a by-product of these initiatives the dollar moves lower in the foreign exchange markets, then the road to recovery for the hard-pressed manufacturing sector will become clearer as well.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (6/19/85)	155,603	+ 201	+ 781
New York City (6/19/85)	32,694	– 316	– 1,424
Commercial Paper (6/19/85)	260,136	+ 63	+40,054

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/19/85)	253,748	+ 535	+ 8,435
New York City (6/19/85)	61,491	+ 214	– 2,941

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/19/85)	682,809	+ 5,079	+ 65,257
New York City (6/19/85)	154,469	+ 3,351	+ 15,663

Financial Markets

	Friday 7/5/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	6.99%	– .06	– 3.41
180-Day Bills†	7.12	– .18	– 4.03
Longest Bills†	7.37	– .33	– 4.68
Recent Issues:			
$8^1/_2$s 6/30/87	8.34	– .31	
$9^5/_8$s 6/30/89	9.06	– .39	
$11^1/_4$s 5/15/95	9.91	– .34	
$11^1/_4$s 2/15/15	10.21	– .26	
Municipals:			
Bond Buyer–20 Bond Index* (7/3/85)	8.82%	+ .02	– 1.87
Blue List Total ($ Million)	$1,903	– $277	+ $ 467
30-Day Visible Supply ($ Million)	$3,745	+ $280	+ $1,744
Total	$5,648	+ $ 3	+ $2,211
Corporates:			
Moody's Aa Composite (7/2/85)	11.46%	– .06	– 3.01
30-Day Visible Supply ($ Million)	$1,798	+ $685	+ $1,201
Stocks:			
Dow-Jones Averages:			
Industrials	1,335.69	+ .23	+ 213.12
Transportation	678.25	+ 14.16	+ 203.56
Utilities	166.34	+ 1.49	+ 40.67
65 Stocks	555.40	+ 4.03	+ 117.52
Standard and Poor's 500 Stocks (7/3/85)	191.45	+ .40	+ 37.75
N.Y.S.E. Composite Index	111.64	+ .53	+ 23.74
N.Y.S.E. Avg. Daily Vol. for Week (000's)	89,590	–13,970	+ 21,720

* 46% Taxable equivalent 16.33%.

† Bond equivalent.

International Rates

	Friday 7/5/85	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	7.88%	7.88%
1 month	7.63	7.63
3 month	7.69	7.75
6 month	7.75	8.00
1 year	8.06	8.31
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	10.09%	10.17%
Long Term (7 to 15 yrs.)	10.57	19.65

FOREIGN EXCHANGE SPOT RATES

New York Opening (7/5/85)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01636	61.1100
Canada	.7362	1.3584
Denmark	.09184	10.8880
France	.1083	9.2345
Germany	.3296	3.0340
Italy	.0005164	1936.50
Japan	.004036	247.80
Mexico	.003150	317.50
Netherlands	.2925	3.4183
Switzerland	.3933	2.5425
U.K.	1.3175	.7590

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The Manufacturers • Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, JULY 22, 1985

VOLUME XXII, NUMBER 27

A Weaker Dollar . . .

As with the first quarter's gross national product (GNP) number, last week's government report on business activity in the second quarter may mask more than it reveals. According to the Commerce Department, the nation's inflation-adjusted GNP expanded at an anemic 1.7 percent seasonally adjusted annual rate over the last quarter, well below the Department's initial "flash" estimate of three percent GNP growth. But before hunkering down in anticipation of another recession, a look beneath the surface of the top-line GNP number reveals an economy actually much stronger than it seems. For once the effects of diminished inventory spending by business and the widening trade deficit are removed from the GNP statistics, the pace of economic growth vaults from the reported 1.7 percent to more than six percent. With hefty levels of consumer spending leading the way, real final domestic demand (real GNP minus net exports and the change in inventories) advanced at a 6.3 percent annual rate in the second quarter—nearly twice the pace of the first.

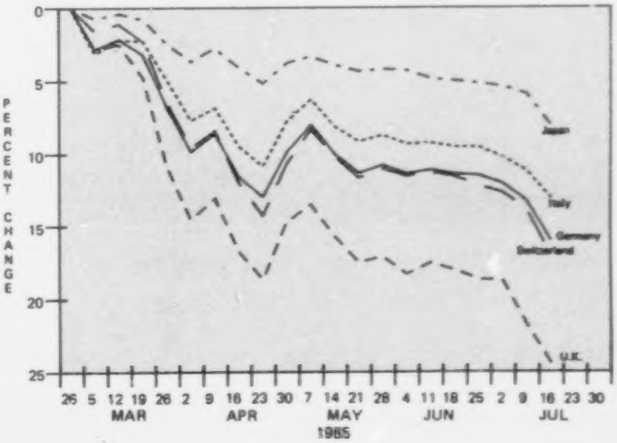
The drag on growth stemming from both diminished inventory spending and a widening trade deficit contains both pluses and minuses. On the plus side, the modest pace of inventory accumulation, as well as the lean levels existing economy-wide, suggest that any further upturn in final demand could be quickly translated into stepped-up manufacturing activity domestically. Unless, of course, such demand is largely satisfied by goods from abroad—producing, on the minus side, an even larger trade deficit. However, the recent retreat of the dollar in the foreign exchange markets may forestall such a development, promising some long-awaited relief for the hard-pressed manufacturing sector.

After reaching record highs at the end of February, the dollar's external value has dropped by more than 15 percent on a trade-weighted basis. It has depreciated substantially against the major currencies—by 24 percent against the pound sterling, by 16 percent against the German mark and by eight percent against the Japanese yen (see chart). As a result, by last week the dollar had reached a 12-month low against several of these currencies.

. . . Raises The Possibility . . .

While in the past the dollar might have soon recovered and moved on to even loftier heights, this time around such a development appears unlikely. One reason for this is the sharp descent of domestic interest rates in recent months, and the narrowing of yield differentials between here and abroad. For whereas relatively high U.S. interest rates gave the dollar great support in the past, this foundation has become more tenuous. In the past 12 months, U.S. short-term rates have fallen by 4½ percentage points, while Japanese rates held steady, German rates fell by half a point and U.K. rates actually rose three percentage points. When inflation-adjusted interest rates are examined, a similar pattern of diminished support for the U.S. dollar, and enhanced appeal for key foreign currencies emerges.

DEPRECIATION OF U.S. DOLLAR
VS. SELECTED FOREIGN CURRENCIES
(PERCENT CHANGE FROM FEBRUARY 26, 1985)



The Congressional testimony of Federal Reserve Chairman Volcker last week also points to a further decline in the value of the dollar. What the Fed clearly desires is to promote a more rapid business expansion in the second half of this year. By permitting faster growth of the U.S. money supply, the Fed could well produce a further decline in interest rates before they head higher. The vehicle that the

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Fed intends to use appears to be a weaker dollar, for it has become clear that the strong dollar has been the key factor that has inhibited U.S. economic growth in recent months.

The Fed's policy of encouraging a lower dollar is probably the only step feasible at this time. Although this may prove to be inflationary sometime down the road, in the short-term, inflation should not be a problem because of large amounts of unused factory capacity, a relatively high level of unemployment and strong competition from abroad. If the Fed can inject greater vigor into the U.S. manufacturing sector by enabling it to compete in international markets, this might alleviate a number of problems that have cropped up in recent months including falling manufacturing employment and contracting U.S. exports.

A falling dollar would also have a number of repercussions overseas. Economic growth abroad might be dampened somewhat as companies find it harder to compete with U.S. firms. But this might be offset by the positive impact of falling interest rates abroad as governments loosened their monetary policies, recognizing that this step would not make their currencies depreciate against the dollar as in the past.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 7/17/85	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	179.404	+ 1.233	+16.808
Loans to Depository Inst.	1.171	– .225	– 4.720
Float	.614	– .172	– .099
Total Reserve Bank Credit	193.539	+ .957	+15.594
Treasury Deposits with			
Federal Reserve Banks	3.219	– 1.325	– .196
Currency in Circulation	188.057	– .636	+11.229
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	124.254	+ .010	+ 8.632
	7/17/85		
Member Bank Reserves:			
Total Reserves Held	42.889	+ .665	+ 4.488
Excess (Deficiency)	.598	– .583	+ .146
Net Borrowed Reserves	.203	+ .837	+ .089
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M1 (7/8/85)	596.2	+ 14.3‡	+ 8.5‡
M2 (June '85)	2,472.8	+ 7.2	+ 9.0
M3 (June '85)	3,103.3	+ 6.3	+ 9.3
Domestic Nonfinancial Debt (1st Q'85)	6,147.0	+ 11.3	+ 13.6

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 7/19/85	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.17%	7.28%	7.37%
* Federal Agencies	7.14	7.38	8.03
* Municipal Notes—High Grade (46% Taxable Equivalent)	7.41	7.87	8.15
Negotiable Time CDs Manufacturers Hanover		Rates By Arrangement	
* Secondary Market—Prime	7.65	7.80	8.25

‡ Finance Company Paper—Prime	
5- 14 days	7.60%
15- 29 days	7.60
30- 59 days	7.60
60- 89 days	7.60
90-179 days	7.65
180-239 days	7.65
240-270 days	7.65

‡* Bankers' Acceptances	
Aug.	7.65%
Sep.	7.65
Oct.	7.65
Nov.	7.65
Dec.	7.65
Jan.	7.65

‡Industrial Paper—Prime	
30- 89 days	7.55%
90-120 days	7.45

†Federal Funds Effective Rate 7.88%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'85n	$ 3,854	$ 3,811	$ 3,645
Gross National Product (1972 Dollars)*	2nd Q'85n	$ 1,671	$ 1,664	$ 1,639
Percent Change, Annual Rate	2nd Q'85n	1.7	0.3	7.1
Change in Consumer Prices*	May '85	2.4%	4.8%	2.4%
Change in Producer Prices*	Jun '85n	0.0%	2.4%	0.0%
Civilian Employment (Thousands of Persons)†	Jun '85	106,370	106,960	105,391
Unemployment as % of Civilian Labor Force†	Jun '85	7.3%	7.3%	7.2%
Personal Income*	Jun '85n	$ 3,187	$ 3,170r	$ 3,007
Leading Indicators Composite Index (1967=100)†	May '85	167.8	166.6	168.2
Industrial Production Index (1977=100) † **	Jun '85n	124.6	124.4r	122.3r
Net Change in Consumer Installment Credit †	May '85n	$ 9.04	$ 8.27	$ 9.09
U.S. Merchandise Trade Balance †	May '85	–$ 12.67	–$ 11.85	–$ 9.28
Plant and Equipment Expenditures*	3rd Q'85	$392.61(a)	$385.31(a)	$361.12
Private Housing Starts (Thousands of Units)*	Jun '85n	1,705	1,673r	1,837
New Construction Expenditures*	May '85	$ 343.5	$ 338.3	$ 315.7
Total Business Inventories †	May '85n	$ 577.9	$ 580.2r	$ 550.5
Total Business Sales †	May '85n	$ 427.6	$ 426.7r	$ 412.5

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.
**Rebased to 1977=100 from 1967=100.

. . . Of Stronger GNP Growth

The developing countries would also benefit in more ways than one from the above developments. If the weaker dollar were associated with a general drop in interest rates everywhere, their debt service burden would become lighter. Prices of their commodity exports, which have been dampened by high interest rates and the strong dollar, may also rise. That would, of course, bring in more revenues and could also stimulate additional spending on exports from the industrial countries. What is more, the cost of developing country imports which are priced in dollars—most importantly petroleum—would also become cheaper as the dollar declines, if they are paid for with earnings from non-dollar currency countries.

All these potentially beneficial consequences would, however, not come about if the dollar did not weaken in an orderly fashion alongside a gradual decline in U.S. interest rates. "Hard landing" theorists argue that the dollar could instead crash if global holders of dollars lose confidence in U.S. monetary management and sell the currency. This process would probably be associated with a scramble to get out of U.S. financial assets in general, leading to rising, rather than falling, U.S. interest rates. This could produce a recession in the U.S., rather than the economic growth that the Fed desires. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (7/3/85)	154,092	– 339	– 2,662
New York City (7/10/85)	32,327	– 488	– 2,298
Commercial Paper (7/10/85)	263,695	+ 1,958	+39,789

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/3/85)	254,213	+ 1,935	+ 7,970
New York City (7/10/85)	60,305	– 602	– 3,973

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/3/85)	685,647	+ 6,322	+ 61,075
New York City (7/10/85)	150,055	– 3,201	+ 11,947

Financial Markets

	Friday 7/19/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.38%	+ .08	– 3.15
180-Day Bills†	7.62	+ .06	– 3.62
Longest Bills†	7.88	+ .01	– 4.06
Recent Issues:			
$8\frac{1}{2}$s 6/30/87	8.78	+ .04	
$9\frac{5}{8}$s 6/30/89	9.53	+ .06	
$11\frac{1}{4}$s 5/15/95	10.32	+ .08	
$11\frac{1}{4}$s 2/15/15	10.51	+ .07	
Municipals:			
Bond Buyer—20 Bond Index* (7/18/85)	8.73%	– .08	– 1.63
Blue List Total ($ Million)	$1,818	– $103	+ $ 685
30-Day Visible Supply ($ Million)	$3,453	+ $503	+ $1,619
Total	$5,271	+ $400	+ $2,304
Corporates:			
Moody's Aa Composite (7/18/85)	11.36%	– .01	– 2.76
30-Day Visible Supply ($ Million)	$3,353	– $202	+ $2,953
Stocks:			
Dow-Jones Averages:			
Industrials	1,359.54	+ 20.94	+ 258.17
Transportation	700.73	+ 12.76	+ 248.98
Utilities	166.24	– 2.67	+ 42.54
65 Stocks	566.08	+ 6.47	+ 139.68
Standard and Poor's 500 Stocks	195.13	+ 1.84	+ 45.58
N.Y.S.E. Composite Index	113.29	+ 1.16	+ 27.08
N.Y.S.E. Avg. Daily Vol. for Week (000's)	128,642	+21,850	+ 48,994

* 46% Taxable equivalent 16.17%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 7/19/85	Week Ago
Overnight	7.75%	7.69%
1 month	7.81	7.75
3 month	7.94	7.88
6 month	8.13	8.00
1 year	8.50	8.44
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	10.40%	10.10%
Long Term (7 to 15 yrs.)	10.90	10.65

FOREIGN EXCHANGE SPOT RATES

New York Opening (7/19/85)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01733	57.7000
Canada	.7433	1.3453
Denmark	.09695	10.3150
France	.1149	8.7050
Germany	.3484	2.8700
Italy	.0005342	1872.00
Japan	.004205	237.83
Mexico	.002706	369.50
Netherlands	.3097	3.2290
Switzerland	.4228	2.3650
U.K.	1.4035	.7125

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The Manufacturers Hanover Financial Digest

Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, AUGUST 5, 1985

VOLUME XXII, NUMBER 28

The Pause In Economic Growth . . .

For all the economy's apparent weakness in the first half of 1985, there may be more strength than meets the eye. While inflation-adjusted output of goods and services (real GNP) increased at an average annual rate of only one percent in the January-June period, the weakness was concentrated in the two most volatile components of output—net exports and inventory investment. In the first quarter of 1985, domestic output was depressed by the increased diversion of domestic demand to foreign producers, resulting in a sharp deterioration in the U.S. net export position. In the second quarter, on the other hand, the principal cause of slow growth was cautious policies by business that resulted in sharply reduced inventory investment.

Last quarter's real GNP, up 1.7 percent at an annual rate, does not reveal the underlying strength of business activity. This is because the gross national product is a measure of domestic output and not of domestic spending. Consequently, rising imports and a slower rate of inventory accumulation can prevent strong consumer and business spending from translating into healthy GNP growth.

Real final domestic demand—real GNP minus net exports and change in business inventories—reveals a surprisingly strong economy in the first half of 1985. Real final domestic demand advanced at an average annual rate of five percent in the January-June period—not much different from the pace of the preceding year. Both the consumer and business sectors were the major forces behind this strength. Consumer expenditures, for example, grew at a seasonally adjusted annual rate of 5.2 percent in the first half of 1985, while business spending for plant and equipment expanded at an annual rate of 5.8 percent.

. . . Was Caused By A Larger Trade Deficit . . .

But this strong domestic demand did not result in a corresponding growth in domestic output. During the first quarter, a surge in imports which soared 32 percent at an annual rate, resulted in a $15 billion deterioration in the inflation-adjusted net export deficit in the GNP accounts, subtracting 3.6 percentage points from real growth. In other words, if our net export position in the first quarter had remained unchanged from the previous quarter, then GNP in the first quarter of this year would have grown nearly four percent.

In the second quarter output growth was again retarded by the net export deficit which widened by another $5.4 billion. This time imports rose only modestly; exports, however, posted their largest drop in 2½ years. The drag from net exports depressed real GNP growth by 1.3 percentage points.

But the principal cause of sluggish output growth in the April-June period was a reduction in the rate of inventory investment. The $5.8 billion increase in inflation-adjusted business inventories in the second quarter marked a significant slowdown from the $19.1 billion accumulation pace of the previous quarter. It reduced real GNP by more than $13 billion, subtracting an additional 3.4 percentage points from the second quarter's growth. Indeed, if inventory spending in the April-June period had matched the first quarter's rate, real GNP would have increased by five percent. And if the effects of both the diminished rate of inventory investment and the widening trade deficit are removed, the pace of economic growth in the second quarter picks up from the reported 1.7 percent to more than six percent.

. . . And Slower Inventory Accumulation

The slower pace of economic growth in first-half 1985 was a continuation of a trend which began last summer. At that time, the robust growth of the early stage of the business recovery switched to a more moderate pace. Thus, after rising at a sizzling seven percent clip, on average, during the first six quarters of the current business upswing, real GNP in the last four quarters expanded at a more subdued two percent pace. This is not an unusual development. Indeed, the slower pace of business activity over the past year mirrors similar patterns of some of the other longer postwar recoveries.

Vigorous growth in the earlier stages of those expansions that lasted this long was also followed by a period of subdued economic performance for two to five quarters, with the growth rate of real output

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averaging approximately two percent. This growth pause was often followed by another phase of stronger activity before the expansion's demise. In this respect, the current experience seems to be typical. Already, last week's economic statistics for June point to a pickup in the pace of business activity toward the end of the second quarter.

What's more, the third quarter appears to have gotten off to a good start. According to the Bureau of Labor Statistics, July's non-farm payroll employment posted a gain of 250,000 jobs. Most of July's job increases occurred in the service sector, since manufacturing payrolls held steady after falling in the previous five months. The civilian unemployment rate remained at 7.3 percent.

Another sign suggesting that the economic pulse may be quickening came from the Commerce Department's index of leading economic indicators. The index, which tends to foreshadow future business trends, posted a strong gain of one percent in June, reaching an all-time peak.

Other signs that point to a resumption of the economy's strength in the July-September period include June's two percent jump in new orders for manufactured goods, an increase in consumer confidence, continued gains in personal incomes, June's 0.7 percent rise in construction spending, and

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 7/31/85	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	174.926	– 1.724	+16.456
Loans to Depository Inst.	.950	+ .066	– 6.510
Float	.728	+ .193	+ .358
Total Reserve Bank Credit	189.249	– 1.233	+13.883
Treasury Deposits with Federal Reserve Banks	3.725	+ .143	– .454
Currency in Circulation	186.561	– .476	+11.206
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	125.643	– .006	+10.597
	7/31/85		
Member Bank Reserves:			
Total Reserves Held	41.878	– 1.051	+ 4.660
Excess (Deficiency)	.837	+ .140	+ .202
Net Free Reserves	.426	+ .530	+ .847

		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M1 (7/22/85)	595.4	+ 14.0‡	+ 8.7‡
M2 (June '85)	2,473.1	+ 7.2	+ 9.0
M3 (June '85)	3,103.5	+ 6.3	+ 9.3
Domestic Nonfinancial Debt (1st Q'85)	6,147.0	+ 11.3	+ 13.6

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 8/2/85	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.30%	7.47%	7.64%
* Federal Agencies	8.00	8.05	8.40
* Municipal Notes—High Grade (46% Taxable Equivalent)	8.33	8.80	9.26
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	7.75	8.00	8.45

‡ Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	7.75%	Sep.	7.80%
15- 29 days	7.75	Oct.	7.80
30- 59 days	7.75	Nov.	7.85
60- 89 days	7.75	Dec.	7.90
90-179 days	7.75	Jan.	7.92
180-239 days	7.75	Feb.	7.92
240-270 days	7.75		

‡ Industrial Paper—Prime		† Federal Funds	
30- 89 days	7.75%		
90-120 days	7.75	Effective Rate	7.95%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'85	$ 3,854	$ 3,811	$ 3,645
Gross National Product (1972 Dollars)*	2nd Q'85	$ 1,671	$ 1,664	$ 1,639
Percent Change, Annual Rate	2nd Q'85	1.7	0.3	7.1
Change in Consumer Prices*	Jun '85n	2.4%	2.4%	2.4%
Change in Producer Prices*	Jun '85	0.0%	2.4%	0.0%
Civilian Employment (Thousands of Persons)†	Jul '85n	106,862	106,370	105,377
Unemployment as % of Civilian Labor Force†	Jul '85n	7.3%	7.3%	7.5%
Personal Income*	Jun '85	$ 3,187	$ 3,170	$ 3,007
Leading Indicators Composite Index (1967=100)†	Jun '85n	168.5	166.9r	166.7
Industrial Production Index (1977=100) †	Jun '85	124.6	124.4	122.3
Net Change in Consumer Installment Credit †	May '85	$ 9.04	$ 8.27	$ 9.09
U.S. Merchandise Trade Balance †	Jun '85n	–$ 13.42	–$ 12.67	–$ 8.76
Plant and Equipment Expenditures*	3rd Q'85	$392.61(a)	$385.31(a)	$361.12
Private Housing Starts (Thousands of Units)*	Jun '85	1,705	1,673	1,837
New Construction Expenditures*	Jun '85n	$ 342.8	$ 340.5r	$ 317.8
Total Business Inventories †	May '85	$ 577.9	$ 580.2	$ 550.5
Total Business Sales †	May '85	$ 427.6	$ 426.7	$ 412.5

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

what seems to be a low level of business inventories. In fact, lean inventories in most sectors suggest that any further upturn in demand will be translated into stepped-up production. And two powerful remedies now in place—lower interest rates and a lower exchange value of the dollar—also portend renewed economic vigor in the months ahead.

Most short-term interest rates are at their lowest levels since late 1978. Business spending on plant and equipment seems to be responding to these lower interest rates. Inflation-adjusted investment in new structures in the second quarter rose at a 19 percent annual rate, while spending on producers' durable equipment rose at an 11.4 percent pace.

The lower value of the dollar is expected to retard the further erosion of the U.S. net export position by slowing imports and improving the competitive strength of American exporters.

Further, it seems that the pace of business activity abroad may be picking up as well. Columbia University's Center for International Business Cycle Research reports that its index of leading indicators for eight major foreign countries has risen six percent in the last six months. Stronger growth abroad should increase foreign demand for U.S. goods and services. This will not only add to the pace of the U.S. expansion, it will also help to reduce our trade deficit.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (7/17/85)	153,044	+ 177	– 4,026
New York City (7/24/85)	32,865	+ 310	– 2,423
Commercial Paper (7/24/85)	264,817	– 2,077	+39,169

Bank Loans

(Millions of Dollars)

	Commercial and Industrial Loans		
Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/17/85)	252,943	– 214	+ 7,642
New York City (7/24/85)	59,639	– 65	– 4,802

	Total Loans and Leases Gross Adjusted		
	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/17/85)	683,031	+ 2,695	+ 63,640
New York City (7/24/85)	145,969	– 4,450	+ 6,807

Financial Markets

	Friday 8/2/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.53%	+ .12	– 3.34
180-Day Bills†	7.88	+ .54	– 3.47
Longest Bills†	8.22	+ .78	– 3.53
Recent Issues:			
$8\frac{7}{8}$s 7/31/87	9.11	+ .13	
$9\frac{5}{8}$s 6/30/89	9.86	+ .14	
$11\frac{1}{4}$s 5/15/95	10.61	+ .04	
$11\frac{1}{4}$s 2/15/15	10.73	+ .03	
Municipals:			
Bond Buyer–20 Bond Index* (8/1/85)	9.01%	+ .14	– .91
Blue List Total ($ Million)	$2,090	–$ 828	+ $1,076
30-Day Visible Supply ($ Million)	$2,948	–$ 338	– $ 327
Total	$5,038	–$1,166	+ $ 749
Corporates:			
Moody's Aa Composite (8/1/85)	11.53%	+ .06	– 2.06
30-Day Visible Supply ($ Million)	$3,453	–$ 287	+ $2,898
Stocks:			
Dow-Jones Averages:			
Industrials	1,353.05	– 4.03	+ 150.97
Transportation	699.44	+ 11.24	+ 173.77
Utilities	156.85	– .57	+ 30.36
65 Stocks	559.40	+ 1.30	+ 90.89
Standard and Poor's 500 Stocks	191.48	– .92	+ 29.13
N.Y.S.E. Composite Index	110.85	– .50	+ 17.62
N.Y.S.E. Avg. Daily Vol. for Week (000's)	106,528	–12,674	– 33,148

* 46% Taxable equivalent 16.69%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 8/2/85	Week Ago
Overnight	7.94%	7.31%
1 month	7.94	7.88
3 month	8.13	8.13
6 month	8.38	8.38
1 year	8.75	8.69
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	10.35%	10.40%
Long Term (7 to 15 yrs.)	10.90	10.95

FOREIGN EXCHANGE SPOT RATES

New York Opening (8/2/85)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01747	57.2400
Canada	.7389	1.3533
Denmark	.09847	10.1550
France	.1157	8.6425
Germany	.3530	2.8330
Italy	.0005265	1899.50
Japan	.004209	237.58
Mexico	.002857	350.00
Netherlands	.3145	3.1800
Switzerland	.4310	2.3200
U.K.	1.3640	.7331

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The Manufacturers Hanover Financial Digest

Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, AUGUST 19, 1985 VOLUME XXII, NUMBER 29

The Tide Of Protectionism . . .

A tidal wave seems to be heading our way in the form of a new round of protectionism. It follows wave after wave of imported goods that have already crested at our shores, resulting in the largest trade deficit in our nation's history. As a result, Congress is wading into a flood of bills to curb imports. Everything from shirts, sweaters and shoes, to waterbeds, to ferroalloys and lumber may well be subject to import controls in what is shaping up as the greatest deluge of protectionist legislation in the postwar era.

What is more, the protectionist drive is bipartisan. Both Democrats as well as Republicans in the Congress are behind these various efforts to hold back the tide of foreign-made merchandise. The Congress is seizing the initiative in trade policy from the Administration. Ordinarily a leader in such matters, the White House has been unable to come to grips with the issue for several reasons. First, President Reagan supports free trade, but many of his constituents both in the business community and elsewhere do not totally share this view. In addition, the Administration is widely seen as having contributed to the problem by running huge deficits in its budget. This led to high real interest rates, which attracted funds from abroad, boosting the value of the dollar and, in turn, making exports more expensive and imports cheaper. Finally, the President is concerned about relations with other countries and the impact that protectionist legislation might have on our political and military allies around the world.

. . . Is Rolling In . . .

Like so many things in economics, our massive trade deficit with Japan, Europe, Canada, Latin America and others that has hurt many domestic producers is not without some benefits. For one thing, U.S. consumers have been able to pick and choose from a vast array of foreign-made goods at relatively low prices. In several instances, such as videotape recorders, pocket calculators and Walkman-type portable radios, these products aren't even made in the U.S. Even some of what we buy under American brand names is made overseas. Just about every auto made in the U.S. contains components produced in some other country, as is the case with such items as computers and copy machines.

It may be true, as a number of domestic manufacturing industries assert, that many jobs have been lost due to competition from abroad. However, it is also a fact that, from an employment standpoint, the U.S. has long since become a service economy, where, for most industries, imports are either essential, complementary, or relatively unimportant. Three-quarters of nonfarm workers in the U.S. are now employed in transportation, banking, insurance, real estate, government, and retail trade. Finally, our purchases of foreign-made goods have helped other countries grow. Our trading partners from the developed world would probably be in recession, were it not for their enhanced ability to sell here, while developing countries' debt burdens would undoubtedly be greater.

. . . As Efforts Are Made . . .

This is not to argue for the status quo. Current trends in our trade and balance of payments cannot continue for long without some serious consequences. For the United States has just joined the ranks of the world's debtor nations, owing foreigners more than they owe us—the first time this has happened in some 70 years. By the end of this year our foreign debt outstanding will swell beyond $100 billion. That would nearly equal the amounts owed by Brazil or Mexico. One year later, our foreign debt could total over $200 billion. And by the end of this decade, extrapolating current trends, our net foreign indebtedness could well reach $1 trillion—more than the foreign debt of all the world's other debtor nations *combined*! The interest alone would total $100 billion annually by the time the 1990s come into view.

When a nation owes more abroad than foreigners owe to it, several things happen. First, obviously, the flow of dividend and interest payments leaving this country exceeds those payments coming in. If foreign lenders were to invest their interest receipts here, our living standards would not suffer, at least in the near term. But if these foreign lenders decide to bring their interest income home, it would cause a reduction in living standards here. Another

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consequence is that the debtor nation (in this case, the U.S.) must devote a growing portion of its economic output to paying its foreign bills. Indeed, we will ultimately have to run surpluses on our trade accounts to service our external debt—not too easy, when you realize that it was trade deficits that got us into this position in the first place.

Becoming a net debtor nation makes the U.S. more dependent on outside sources for funds. And if foreigners decide to cash in their chips and get out of dollars, we'd be in for a new round of problems. For one thing, the dollar would plunge. And while those businesses that have been hurt by the strong dollar might not find this unwelcome, it could lead to higher interest rates if the Federal Reserve decides to cushion the dollar's slide. This, in turn, could set off a new recession. For another, the Treasury, which relies on foreigners to purchase sizable chunks of Government securities, would have to seek buyers elsewhere—meaning inside the U.S. This would put additional upward pressures under interest rates.

Finally, as a debtor nation, we have become a net importer of capital. We are now pulling money out of the international capital markets just when the developing countries need these funds the most. This impairs their ability to build up their own economies. Fortunately, the dollar has declined

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 8/14/85	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	176.605	+ .608	+18.668
Loans to Depository Inst.	1.144	+ .309	− 7.548
Float	13.211	+ .104	+ 4.301
Total Reserve Bank Credit	191.524	+ 1.005	+15.402
Treasury Deposits with Federal Reserve Banks	3.032	+ .234	− .088
Currency in Circulation	188.341	+ .657	+11.585
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	124.437	− .547	+ 5.317
	8/14/85		
Member Bank Reserves:			
Total Reserves Held	42.677	+ 7.33	+ 4.602
Excess (Deficiency)	.674	− .286	− .025
Net Free Reserves	.193	− .356	+ .506
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M1 (8/5/85)	601.9	+ 14.3‡	+ 9.0‡
M2 (July '85)	2,490.3	+ 10.4	+ 9.2
M3 (July '85)	3,114.1	+ 7.6	+ 8.8
Domestic Nonfinancial Debt (1st Q'85)	6,147.0	+ 11.3	+ 13.6

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 8/16/85	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.28%	7.38%	7.53%
* Federal Agencies	7.62	7.81	8.47
*Municipal Notes—High Grade (46% Taxable Equivalent)	9.26	9.72	10.00
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	7.87	8.05	8.38

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	7.80%	Sep.	7.75%
15- 29 days	7.80	Oct.	7.75
30- 59 days	7.80	Nov.	7.74
60- 89 days	7.75	Dec.	7.74
90-179 days	7.75	Jan.	7.78
180-239 days	7.80	Feb.	7.80
240-270 days	7.80		

‡Industrial Paper—Prime			
30- 89 days	7.78%	†Federal Funds	
90-120 days	7.75	Effective Rate	8.25%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'85	$ 3,854	$ 3,811	$ 3,645
Gross National Product (1972 Dollars)*	2nd Q'85	$ 1,671	$ 1,664	$ 1,639
Percent Change, Annual Rate	2nd Q'85	1.7	0.3	7.1
Change in Consumer Prices*	Jun '85	2.4%	2.4%	2.4%
Change in Producer Prices*	Jul '85n	3.6%	− 2.4% r	2.4%
Civilian Employment (Thousands of Persons)†	Jul '85	106,862	106,370	105,377
Unemployment as % of Civilian Labor Force†	Jul '85	7.3%	7.3%	7.5%
Personal Income*	Jun '85	$ 3,187	$ 3,170	$ 3,007
Leading Indicators Composite Index (1967=100)†	Jun '85	168.5	166.9	166.7
Industrial Production Index (1977=100) †	Jul '85n	124.9	124.7r	123.2
Net Change in Consumer Installment Credit †	Jun '85n	$ 6.79	$ 9.04	$ 7.08
U.S. Merchandise Trade Balance †	Jun '85	−$ 13.42	−$ 12.67	−$ 8.76
Plant and Equipment Expenditures*	3rd Q'85	$392.61(a)	$385.31(a)	$361.12
Private Housing Starts (Thousands of Units)*	Jul '85n	1,654	1,694r	1,730
New Construction Expenditures*	Jun '85	$ 342.8	$ 340.5	$ 317.8
Total Business Inventories †	Jun '85n	$ 580.1	$ 577.8r	$ 552.4
Total Business Sales †	Jun '85n	$ 419.2	$ 428.3r	$ 414.0

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

from its recent peaks. If it continues to move lower, we should be able to slow the growth of our foreign debt. Our merchandise trade deficit will begin to shrink as our exports become cheaper overseas while price tags on imported goods rise.

. . . To Cut Our Trade Deficit

While waiting for this to occur, we should try to reduce our trade deficit by other means—although not by the sledgehammer approach of across-the-board protectionist legislation. First, of course, we must slash our domestic budget deficit. This way, we'll cut the demand for dollars, lower interest rates, and allow other currencies to strengthen in the process. For their part, other countries should promote private and public investment through tax cuts, easing their restrictive fiscal policies. In other words, when it comes to economic policy, other countries should emulate us, while we try to become more like them.

Of course, free trade also means fair trade. Our businessmen must be given the same chance at cracking other countries' markets as their businessmen have here. In addition, some adjustment should be made for wage differences between the U.S. and the low-wage nations to ensure that wage competition doesn't result in dragging down our living standards while we pull theirs up.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (7/31/85)	153,553	– 445	– 3,952
New York City (8/7/85)	32,726	+ 268	– 2,942
Commercial Paper (8/7/85)	267,127	+ 1,264	+45,518

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/31/85)	253,502	+ 1,548	+ 7,334
New York City (8/7/85)	60,208	– 173	– 4,478

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/31/85)	681,921	+ 7,033	+ 58,682
New York City (8/7/85)	148,131	– 1,573	+ 10,213

Financial Markets

	Friday 8/16/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.34%	– .03	– 3.32
180-Day Bills†	7.65	– .09	– 3.63
Longest Bills†	7.96	– .01	– 3.78
Recent Issues:			
$8\frac{7}{8}$s 7/31/87	8.84	– .09	
$9\frac{5}{8}$s 6/30/89	9.47	– .11	
$10\frac{1}{2}$s 8/15/95	10.24	– .13	
$10\frac{5}{8}$s 8/15/15	10.53	– .08	
Municipals:			
Bond Buyer—20 Bond Index* (8/15/85)	9.12%	+ .10	– 0.90
Blue List Total ($ Million)	$1,991	– $174	+ $ 595
30-Day Visible Supply ($ Million)	$4,509	+ $432	+ $ 872
Total	$6,500	+ $258	+ $1,467
Corporates:			
Moody's Aa Composite (8/15/85)	11.49%	– 0.7	– 1.96
30-Day Visible Supply ($ Million)	$1,608	– $830	+ $1,106
Stocks:			
Dow-Jones Averages:			
Industrials	1,312.72	– 8.07	+ 100.32
Transportation	666.78	– 13.11	+ 152.07
Utilities	157.21	+ 2.15	+ 28.52
65 Stocks	542.66	– 3.76	+ 73.35
Standard and Poor's 500 Stocks	186.10	– 2.22	+ 21.96
N.Y.S.E. Composite Index	107.92	– 1.14	+ 13.50
N.Y.S.E. Avg. Daily Vol. for Week (000's)	83,666	– 9,984	+ 250

* 46% Taxable equivalent 16.89%.

† Bond equivalent.

International Rates

	Friday 8/16/85	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	8.19%	7.50%
1 month	7.94	7.81
3 month	8.06	8.00
6 month	8.25	8.25
1 year	8.63	8.56
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	10.30%	10.40%
Long Term (7 to 15 yrs.)	11.00	11.03

FOREIGN EXCHANGE SPOT RATES

New York Opening (8/16/85)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01785	56.0100
Canada	.7394	1.3525
Denmark	.1003	9.9725
France	.1184	8.4475
Germany	.3620	2.7628
Italy	.0005402	1851.00
Japan	.004224	236.75
Mexico	.002967	337.00
Netherlands	.3216	3.1097
Switzerland	.4411	2.2670
U.K.	1.3995	.7145

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The Manufacturers Hanover
Financial Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

FRIDAY, AUGUST 30, 1985
VOLUME XXII, NUMBER 30

More Monetary Policy Ease . . .

Now that August's meeting of the Federal Reserve's policy-setting Federal Open Market Committee is over, speculation abounds again as to the near-term course of monetary policy. But despite some doubts that the Fed will maintain its accommodative stance due to overly rapid M1 money supply growth, the fact remains that as long as the pace of business remains listless, and inflation rates so modest, not only should monetary policy remain accommodative, but may ultimately turn even easier still. Thus, the Fed may soon set the stage for both lower interest rates and as a by-product, a lower-valued dollar in the foreign exchange markets—developments which could provide a much needed lift to the hard-pressed manufacturing sector of the economy.

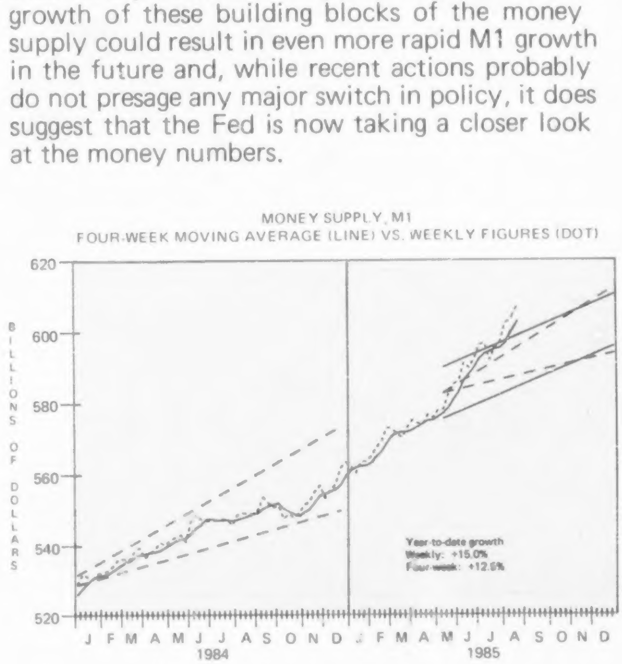
One reason for expecting such a move is that recent business statistics largely paint a picture of relative weakness. Domestic auto sales slumped in July to their lowest monthly rate since last November, while retail sales in general rose only modestly during the month. On the goods-producing side of the economy too, there are few signs to suggest that a rebound looms anytime soon. Industrial production barely edged higher in July when compared with month-earlier levels, and capacity utilization economy-wide was unchanged; add to this the fact that factory orders and manufacturing employment are also heading lower, and it appears a good bet that at the very least the third quarter got off to a lackluster start.

On the other hand, trends in M1 money supply growth have prompted increasing doubts that monetary policy would be eased. The ongoing rise of M1 in recent weeks strengthens the argument of those urging less rather than more accommodation—it is now nearly $11 billion above the new upper target boundary set just eight weeks ago, and so far this year has expanded at a hefty 15 percent annual clip (see chart). Even though the Fed claims it is not as concerned about the rapid growth of M1 as it has been in the past—possibly in light of the slower growth rates of both M2 and M3—it still remains to be seen whether or not the Fed eventually takes steps to lean against the existing money supply bulge.

. . . Could Be In The Offing

In fact, it may already have. It now appears that the central bank has decided to slow the provision of reserves to the banking system—prompting some upward drift in the key Federal funds rate. Whereas total reserves have risen at an almost 18 percent annual rate clip over the past 13 weeks, in the last month alone, this growth has decelerated—to a less than nine percent annual growth rate. The rapid growth of these building blocks of the money supply could result in even more rapid M1 growth in the future and, while recent actions probably do not presage any major switch in policy, it does suggest that the Fed is now taking a closer look at the money numbers.

MONEY SUPPLY, M1
FOUR-WEEK MOVING AVERAGE (LINE) VS. WEEKLY FIGURES (DOT)



But for those charting the course of monetary policy, the fact remains that despite lower interest rates, the economy is still growing only very slowly. At the same time, with inflation rates remaining under control and the dollar's strength still harming domestic manufacturers, it appears difficult to justify any monetary policy tightening. On the other hand, with M1 money growth far above original intentions, the Fed may be wary of loosening the reins further. While a good chunk of this growth is accounted for by an upsurge in interest-bearing checking accounts—and could reflect simply the narrowing of yield differentials between these accounts, a part of M1, and the money market

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funds, included in M2—such a rapid buildup of liquid funds could prove troublesome in the future. The result: Put further easing initiatives on hold for now, but move toward greater accommodation if August's business statistics are as weak as those of July.

A Still Strong Dollar Hurts Exports

Although any further easing of monetary policy, and resulting lower interest rates, could cause the dollar to weaken further, it is unlikely that this will benefit U.S. manufacturers anytime soon. In the U.S. market, prices of imports did not decline in step with the appreciation of the dollar. This allowed foreign producers to fatten their profit margins (in terms of their own currencies) and at the same time set competitive prices which U.S. producers found hard to match. In the period between the end of 1980, when the dollar began its explosive rise, and the end of the second quarter of this year, the dollar appreciated by 62 percent on a trade-weighted basis. However, the index of merchandise import prices fell by only about seven percent. Consequently, there is still an ample profit margin which can be allowed to erode before foreign exporters to the United States market feel competitive pressures.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 8/28/85	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	177.166	− .071	+18.881
Loans to Depository Inst.	1.096	+ .017	− 7.260
Float	.041	− .512	− .065
Total Reserve Bank Credit	189.788	− .261	+15.417
Treasury Deposits with Federal Reserve Banks	2.436	− .746	− 1.179
Currency in Circulation	187.245	− .657	+11.798
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	124.059	− .741	+ 5.129
	8/28/85		
Member Bank Reserves:			
Total Reserves Held	42.290	− .393	+ 4.986
Excess (Deficiency)	.784	+ .033	+ .107
Net Free Reserves	.306	+ .036	+ .590
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates †			
M1 (8/12/85)	603.1	+ 15.6‡	+ 9.5‡
M2 (July '85)	2,490.4	+ 10.4	+ 9.2
M3 (July '85)	3,113.8	+ 7.5	+ 8.8
Domestic Nonfinancial Debt (1st Q'85)	6,147.0	+ 11.3	+ 13.6

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 8/30/85	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.13%	7.29%	7.46%
* Federal Agencies	7.22	7.79	8.60
* Municipal Notes—High Grade (46% Taxable Equivalent)	8.79	9.26	9.72
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	7.75	7.85	8.15

‡Finance Company Paper—Prime	
5- 14 days	7.70%
15- 29 days	7.70
30- 59 days	7.70
60- 89 days	7.70
90-179 days	7.70
180-239 days	7.70
240-270 days	7.70

‡* Bankers' Acceptances	
Sep.	7.66%
Oct.	7.66
Nov.	7.65
Dec.	7.65
Jan.	7.65
Feb.	7.65

‡Industrial Paper—Prime	
30- 89 days	7.68%
90-120 days	7.65

†Federal Funds Effective Rate 7.70%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'85	$ 3,855r	$ 3,811	$ 3,645
Gross National Product (1972 Dollars)*	2nd Q'85	$ 1,672r	$ 1,664	$ 1,639
Percent Change, Annual Rate	2nd Q'85	2.0r	0.3	7.1
Change in Consumer Prices*	Jul '85n	2.4%	2.4%	3.6%
Change in Producer Prices*	Jul '85	3.6%	− 2.4%	2.4%
Civilian Employment (Thousands of Persons)†	Jul '85	106,862	106,370	105,377
Unemployment as % of Civilian Labor Force†	Jul '85	7.3%	7.3%	7.5%
Personal Income*	Jul '85n	$ 3,189	$ 3,176r	$ 3,028
Leading Indicators Composite Index (1967=100)†	Jul '85n	168.7	168.0r	163.9
Industrial Production Index (1977=100) †	Jul '85	124.9	124.7	123.2
Net Change in Consumer Installment Credit †	Jun '85	$ 6.79	$ 9.04	$ 7.08
U.S. Merchandise Trade Balance †	Jul '85n	−$ 10.51	−$ 13.42	−$ 13.77
Plant and Equipment Expenditures*	3rd Q'85	$392.61(a)	$385.31(a)	$361.12
Private Housing Starts (Thousands of Units)*	Jul '85	1,654	1,694	1,730
New Construction Expenditures*	Jun '85	$ 342.8	$ 340.5	$ 317.8
Total Business Inventories †	Jun '85	$ 580.1	$ 577.8	$ 552.4
Total Business Sales †	Jun '85	$ 419.2	$ 428.3	$ 414.0

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

A similar picture emerges with regard to U.S. exports. As the dollar skyrocketed over the past four and one-half years, the merchandise trade deficit widened from $25½ billion in 1980 to an estimated $140 billion this year. In the same period, the volume of U.S. exports has fallen by 15 percent (while imports have risen by 57 percent). In spite of the 16 percent decline in the trade-weighted value of the dollar since it reached its record high at the end of February, U.S. exports have not yet shown significant improvement. Indeed, in each of the last six months, the value of U.S. exports has been below January's level.

What is more, the structure of U.S. manufactured goods exports is oriented towards such high-value, high-technology capital goods as aircraft and computers, which are frequently ordered well in advance of delivery. This means that a fall in the dollar will be reflected in improved export performance only after a long delay. Add to this the slow pace of economic growth in most other industrialized countries, as well as the continuing financial difficulties of some of our developing country trading partners, and it appears that U.S. export growth will be limited in the immediate future even if the dollar moves lower still.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (8/14/85)	155,430	+ 807	– 3,459
New York City (8/21/85)	32,525	– 9	– 2,622
Commercial Paper (8/21/85)	272,011	+ 414	+52,277

Bank Loans

(Millions of Dollars)

	Commercial and Industrial Loans		
Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/14/85)	251,795	– 1,106	+ 5,982
New York City (8/21/85)	59,770	– 100	– 4,312

	Total Loans and Leases Gross Adjusted		
	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/14/85)	679,119	– 1,110	+ 53,650
New York City (8/21/85)	153,243	+ 4,765	+ 16,131

Financial Markets

	Friday 8/30/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.36%	+ .12	– 3.69
180-Day Bills†	7.67	+ .13	– 3.80
Longest Bills†	8.01	+ .12	– 3.88
Recent Issues:			
$8^{7}/_{8}$s 7/31/87	8.96	+ .10	
$9^{5}/_{8}$s 6/30/89	9.57	+ .14	
$10^{1}/_{2}$s 8/15/95	10.28	+ .15	
$10^{5}/_{8}$s 8/15/15	10.48	+ .06	
Municipals:			
Bond Buyer–20 Bond Index* (8/29/85)	9.09%	– .09	– 1.08
Blue List Total ($ Million)	$1,779	–$ 166	+ $ 109
30-Day Visible Supply ($ Million)	$3,516	–$1,188	+ $ 87
Total	$5,295	–$1,354	+ $ 196
Corporates:			
Moody's Aa Composite (8/29/85)	11.30%	– .07	– 2.16
30-Day Visible Supply ($ Million)	$2,640	–$ 160	+ $2,140
Stocks:			
Dow-Jones Averages:			
Industrials	1,334.01	+ 15.69	+ 109.63
Transportation	690.66	+ 3.86	+ 170.15
Utilities	159.67	+ .46	+ 30.21
65 Stocks	554.37	+ 4.83	+ 80.38
Standard and Poor's 500 Stocks	188.63	+ 1.46	+ 21.12
N.Y.S.E. Composite Index	109.39	+ .90	+ 13.53
N.Y.S.E. Avg. Daily Vol. for Week (000's)	81,708	– 2,274	+ 12,214

* 46% Taxable equivalent 16.83%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 8/30/85	Week Ago
Overnight	7.63%	7.63%
1 month	7.88	7.81
3 month	8.00	7.94
6 month	8.13	8.13
1 year	8.50	8.50
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	9.90%	10.00%
Long Term (7 to 15 yrs.)	10.40	10.60

FOREIGN EXCHANGE SPOT RATES New York Opening (8/30/85)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01774	56.3800
Canada	.7335	1.3634
Denmark	.09872	10.1300
France	.1176	8.5025
Germany	.3595	2.7820
Italy	.0005352	1868.50
Japan	.004221	236.90
Mexico	.002954	338.50
Netherlands	.3193	3.1318
Switzerland	.4377	2.2846
U.K.	1.3995	.7145

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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, SEPTEMBER 9, 1985

VOLUME XXII, NUMBER 31

As The Expansion Matures . . .

On the surface, recent economic statistics still seem to point to a continuing business expansion in the current quarter, albeit at a modest rate. The index of leading economic indicators has risen for three consecutive months, the housing market is improving modestly, employment and incomes are still rising, and the inflation rate remains comfortably below three percent. If the economy can be assumed to be still growing, then September marks the 34th month of this expansion—a significant milestone—equal to the average length of previous postwar peacetime recoveries.

This does not mean that the current expansion has necessarily reached its upper limit. Past peacetime recoveries have ranged from as short as 12 months to as long as 58 months. Nevertheless, it indicates the maturing of this cycle from an energetic youthful stage to a more subdued middle age, a period when susceptibility to a variety of economic ills increases. And there are many problems around. One of the most debilitating threats to the current expansion comes from the protracted malaise in the manufacturing sector. In turn, this reflects, to a large extent, the damage done by the strength of the dollar to the competitiveness of many U.S. manufacturing industries in both domestic and foreign markets.

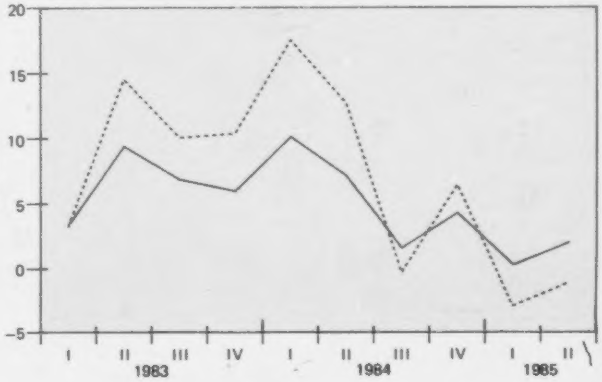
The erosion of U.S. competitiveness resulted both in reduced exports and stepped-up imports, opening a rather sizable gap in our trade accounts. From a global trade deficit of less than $36 billion in 1980, the excess of imports over exports soared to more than $123 billion in 1984 and is expected to reach $140 billion or more this year. The enormous drag of the widening net export deficit on overall growth came largely at the expense of our industrial sector.

. . . The Malaise In Manufacturing . . .

Fierce competition from imports has also forced American manufacturers to fight to retain domestic market share. As a consequence, many companies found they could not raise prices to maintain profit margins as they used to do. Not surprisingly, profitability throughout American basic industries, from textiles and chemicals to forest products and heavy machinery, has been disappointing.

According to a recent study, the climb in the dollar's external value and its damaging effects on the competitive position of U.S. manufacturing was responsible for a 2.3 percent reduction in real GNP in the first year of recovery alone. If the dollar had remained stable, industrial production in the U.S. would have been 5.3 percent higher and there would have been a million additional jobs. While more than nine million new nonfarm jobs were created since the recovery began at the end of 1982, the goods-producing sector gained only two million of these new positions. In fact, total employment in the goods-producing sector, with manufacturing industries accounting for 80 percent of the jobs, remains 6.8 percent below its 1979 peak level.

GROWTH IN REAL GNP (LINE) VS. GROWTH
IN REAL GOODS COMPONENT OF GNP (DOT)
<QUARTER-OVER-QUARTER PERCENT CHANGE AT ANNUAL RATES>



The pattern of real GNP growth in this recovery seems to reflect the performance of the goods-producing sector. During the first six quarters of this recovery, output of goods rose at a dramatic 11.4 percent average annual rate, and real GNP growth rose at a sizzling 7.1 percent clip. However in the past four quarters, goods production has edged up only at a scant 0.5 percent pace and real GNP growth averaged a modest two percent annual rate (see chart).

Although service industries accounted for 77 percent of all new jobs generated during this expansion, their contribution to output growth pales by

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comparison with the goods-producing sector. During the first six quarters of the expansion, service output rose at an average annual rate of only two percent, followed by an average rise of 3.1 percent in the last four quarters. While the source of growth in real GNP has shifted from manufacturing to services in the past year, the service sector has failed to offset the slowdown in output resulting from the lackluster industrial sector.

. . . Spills Over To Other Sectors

Such a performance calls into serious question the often-expressed view that weakness in the manufacturing sector would not affect overall economic growth because of the rapid growth in employment in service industries. Since last January, the manufacturing sector has lost 212,000 jobs. Although this decline was more than offset by the increase of more than 600,000 service jobs, it is questionable whether service employment can continue to grow so rapidly.

For one thing, while only 25 percent of all nonfarm employees are engaged in goods-producing activities, their contribution to total output still amounts to almost 50 percent. No doubt manufacturing activity produces more output per worker than do other business activities. Manufacturing wages are higher than the average wage for service-sector jobs. For example, factory workers earned, on average, $9.20 per hour in 1984, while service employees were compensated at an average rate of only $7.60. As a result, shrinking employment opportunities

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 9/4/85	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	179.355	+ 2.648	+17.720
Loans to Depository Inst.	1.692	+ .596	− 6.315
Float	.545	+ .397	+ .163
Total Reserve Bank Credit	193.862	+ 3.975	+15.619
Treasury Deposits with Federal Reserve Banks	3.339	+ .903	− .801
Currency in Circulation	188.755	+ 1.510	+11.723
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	127.611	+ 3.552	+ 6.475
	8/28/85		
Member Bank Reserves:			
Total Reserves Held	42.384	− .295	+ 5.080
Excess (Deficiency)	.932	+ .189	+ .255
Net Free Reserves	.454	+ .192	+ .738
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates †			
M1 (8/26/85)	608.4	+ 16.0‡	+ 10.2‡
M2 (July '85)	2,490.4	+ 10.4	+ 9.2
M3 (July '85)	3,113.9	+ 7.5	+ 8.8
Domestic Nonfinancial Debt (1st Q'85)	6,147.0	+ 11.3	+ 13.6

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 9/6/85	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.22%	7.40%	7.60%
* Federal Agencies	8.30	8.36	9.30
* Municipal Notes—High Grade (46% Taxable Equivalent)	9.44	9.63	9.72
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	7.95	8.13	8.50

‡Finance Company Paper—Prime	
5- 14 days	7.60%
15- 29 days	7.60
30- 59 days	7.80
60- 89 days	7.85
90-179 days	7.88
180-239 days	7.93
240-270 days	7.90

‡* Bankers' Acceptances	
Oct.	7.85%
Nov.	7.85
Dec.	7.85
Jan.	7.85
Feb.	7.85
Mar.	7.86

‡Industrial Paper—Prime	
30- 89 days	7.70%
90-120 days	7.75

†Federal Funds Effective Rate 7.70%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'85	$ 3,855	$ 3,811	$ 3,645
Gross National Product (1972 Dollars)*	2nd Q'85	$ 1,672	$ 1,664	$ 1,639
Percent Change, Annual Rate	2nd Q'85	2.0	0.3	7.1
Change in Consumer Prices*	Jul '85	2.4%	2.4%	3.6%
Change in Producer Prices*	Jul '85	3.6%	− 2.4%	2.4%
Civilian Employment (Thousands of Persons) †	Aug '85n	107,172	106,862	105,148
Unemployment as % of Civilian Labor Force †	Aug '85n	7.0%	7.3%	7.5%
Personal Income*	Jul '85	$ 3,189	$ 3,176	$ 3,028
Leading Indicators Composite Index (1967=100) †	Jul '85	168.7	168.0	163.9
Industrial Production Index (1977=100) †	Jul '85	124.9	124.7	123.2
Net Change in Consumer Installment Credit †	Jun '85	$ 6.79	$ 9.04	$ 7.08
U.S. Merchandise Trade Balance †	Jul '85	−$ 10.51	−$ 13.42	−$ 13.77
Plant and Equipment Expenditures*	3rd Q'85	$392.61(a)	$385.31(a)	$361.12
Private Housing Starts (Thousands of Units)*	Jul '85	1,654	1,694	1,730
New Construction Expenditures*	Jul '85n	$ 349.5	$ 345.4r	$ 319.1
Total Business Inventories †	Jun '85	$ 580.1	$ 577.8	$ 552.4
Total Business Sales †	Jun '85	$ 419.2	$ 428.3	$ 414.0

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

in the industrial sector have forced people to accept service jobs, some of which tend to be lower paying and less productive.

For another, the continuing growth in service jobs depends to a large degree on the well-being of the industrial sector. Those who believe that the service industries are largely immune to economic slowdowns may soon be disappointed. The majority of service industries provide their output to the manufacturing sector, and the decline in manufacturing may soon spill over to other sectors of the economy affecting companies that supply and service manufacturing. Notwithstanding August's jump in manufacturing employment of 37,000, the recent announcements of reductions in white-collar positions by a number of companies in manufacturing industries could depress these figures come September. In addition, a more competitive environment created by the deregulation of many service industries—from finance to communications—is forcing a number of service companies to take widespread cost-cutting steps including personnel layoffs.

Perhaps the most striking setback has emerged in the high-technology sector which at one time was believed to be largely immune to foreign competition and to be a panacea for the declining smokestack regions. From silicon chip manufacturers to computer producers, major retrenchments involving management shakeups, layoffs of workers and plant closings are now taking place. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (8/21/85)	156,065	+ 635	– 2,484
New York City (8/28/85)	32,220	– 305	– 2,874
Commercial Paper (8/28/85)	271,498	– 513	+49,914

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/21/85)	251,139	– 720	+ 6,247
New York City (8/28/85)	59,703	– 67	– 4,019

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/21/85)	684,493	+ 5,520	+ 63,956
New York City (8/28/85)	149,620	– 3,564	+ 12,864

Financial Markets

	Friday 9/6/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.47%	+ .11	– 3.53
180-Day Bills†	7.79	+ .12	– 3.66
Longest Bills†	8.18	+ .17	– 3.72
Recent Issues:			
$8^{7}/_{8}$s 8/31/87	9.11	+ .15	
$9^{5}/_{8}$s 6/30/89	9.79	+ .22	
$10^{1}/_{2}$s 8/15/95	10.48	+ .20	
$10^{5}/_{8}$s 8/15/15	10.72	+ .24	
Municipals:			
Bond Buyer–20 Bond Index* (9/5/85)	9.07%	– .02	– 1.11
Blue List Total ($ Million)	$1,770	– $ 9	+ $ 174
30-Day Visible Supply ($ Million)	$4,474	+ $958	+ $ 785
Total	$6,244	+ $949	+ $ 959
Corporates:			
Moody's Aa Composite (9/5/85)	11.35%	+ .05	– 2.07
30-Day Visible Supply ($ Million)	$2,290	– $350	+ $1,640
Stocks:			
Dow-Jones Averages:			
Industrials	1,335.69	+ 1.68	+ 128.31
Transportation	677.55	– 13.11	+ 170.14
Utilities	159.16	– .51	+ 30.06
65 Stocks	551.53	– 2.84	+ 84.81
Standard and Poor's 500 Stocks	188.24	– .39	+ 23.87
N.Y.S.E. Composite Index	109.05	– .34	+ 14.36
N.Y.S.E. Avg. Daily Vol. for Week (000's)	89,163	+ 7,455	+ 12,108

* 46% Taxable equivalent 16.80%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 9/6/85	Week Ago
Overnight	7.63%	7.63%
1 month	8.00	7.88
3 month	8.19	8.00
6 month	8.38	8.13
1 year	8.75	8.50
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	10.15%	9.90%
Long Term (7 to 15 yrs.)	10.60	10.40

FOREIGN EXCHANGE SPOT RATES

New York Opening (9/6/85)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01702	58.7500
Canada	.7291	1.3716
Denmark	.09521	10.5030
France	.1126	8.8800
Germany	.3440	2.9070
Italy	.0005167	1935.50
Japan	.004127	242.33
Mexico	.002869	348.50
Netherlands	.3059	3.2695
Switzerland	.4181	2.3915
U.K.	1.3365	.7482

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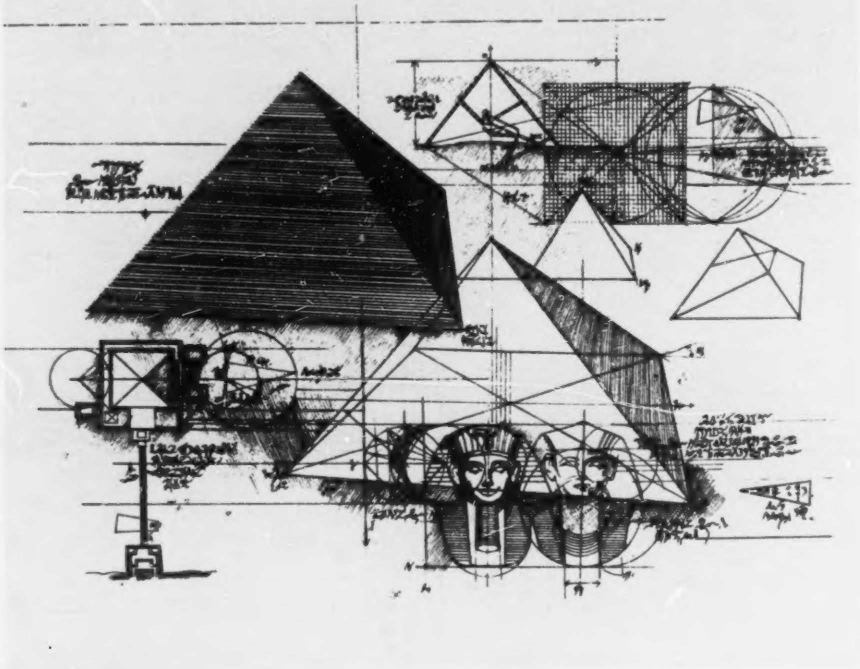

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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, SEPTEMBER 16, 1985

VOLUME XXII, NUMBER 32

Global Employment Performance . . .

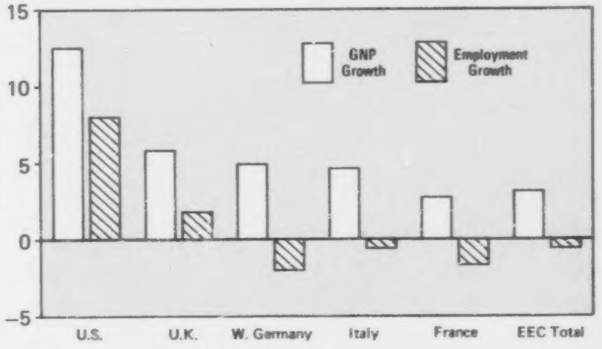
Last month the U.S. economy again demonstrated its impressive capacity for job creation. After six consecutive months during which the U.S. civilian unemployment rate held steady at 7.3 percent, unemployment edged down in August to seven percent—encouraging hopes for faster growth, near term. Equally important, 310,000 new jobs were added, boosting the working population to a record level of more than 107 million. Further, the new jobs in August were spread throughout most sectors of the economy. Employment in goods-producing industries rose by 53,000 last month while service industries continued to expand rapidly, adding 235,000 new jobs. Since the beginning of the current economic upswing in November 1982 the U.S. economy has generated almost eight million jobs, an overall increase in the civilian work force of about eight percent.

In sharp contrast to U.S. job performance, other major industrialized nations—particularly in Europe—have found it difficult to translate economic growth into rising employment. Between the end of 1982 and mid-1985 real GNP in the U.S. grew by 12½ percent while employment increased by eight percent (see chart). In the same period West Germany, Europe's largest economy, saw its real GNP rise by about six percent but employment actually fall by about two percent; France's real growth of 2¾ percent was accompanied by a decline of 1¾ percent in total employment. The unemployment rate for the European Economic Community jumped from an average of nine percent in 1982 to 11 percent in the second quarter of this year, while in the U.S. the jobless rate declined from 9.7 percent to 7.3 percent.

. . . Varies Widely

The reasons for the wide difference in job creation in the U.S. compared with most of the other industrial nations are many and varied. Most of them are structural—that is, built into the way the different economies work, rather than the result of the business cycle. The most important of the structural obstacles to rapid job creation abroad is the relative inflexibility of the European economies compared with the U.S. The mobility of this country's workers has been a major factor in creating a flexible and responsive labor force, helping to match jobs with workers. The willingness of American labor to move to new opportunities as well as the comparative ability that employers have to vary the size of their work force (and consequently labor costs) is quite different from the traditions of lifetime job security, and/or the legal barriers to releasing workers commonly found abroad. As a consequence employers overseas are reluctant to hire in periods of growth, preferring to seek productivity gains through other means.

REAL GNP GROWTH VS. EMPLOYMENT GROWTH IN SELECTED COUNTRIES (PERCENT CHANGE 2ND QTR. 1985 OVER 4TH QTR. 1982)



Sources: Government Statistical Agencies; MH

At the same time, a higher degree of unionization abroad has resulted in more rapid growth in real wages than in productivity in Europe in recent years. This has discouraged employment increases, particularly for entry-level workers. In the U.S., on the other hand, real wage gains for workers have been modest at best. Adding to the costs of labor in Europe has been the growth of fringe benefits to the point where, in some instances, they about equal the basic wage. In West Germany, for example, fringe benefits add close to 80 percent of the basic wage and in Italy fringes add about 94 percent. In the U.S. fringes are about 38 percent of the average worker's salary.

There are additional factors that distinguish the U.S. economy from the other industrial economies. The rapid growth of service industries which are labor-

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intensive, the rise of high technology industries based on entrepreneurship and innovation are hallmarks of the American economy. Moreover, in recent years, a wave of deregulation in this country has expanded opportunities for growth.

As the U.S. has pursued a policy of growth stimulated by high government budget deficits over the past several years, many European countries, concerned about the size of government spending and the effects of past high inflation, have followed contrary policies aimed at containing their deficits and inflation at the expense of encouraging economic growth. While this country has cut taxes and encouraged deficit financing, the thrust of fiscal and monetary policies abroad has been toward spending restraint and revenue enhancement. Unfortunately, in many European countries government spending has tended to discourage employment. Social welfare and unemployment programs, as well as subsidies for some troubled industries, have grown at the expense of public investment in infrastructure. What is more, the liberality of unemployment payments in some countries has also discouraged workers from actively seeking new jobs.

European Job Growth Lags

Not all of the barriers to rapid job creation abroad in recent years have been structural. The modest cyclical economic upswing in Europe in the past few years has been more in response to U.S. economic growth than to internally generated forces. Skyrocketing demand for imports by the U.S.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 9/11/85	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	179.329	− .026	+17.649
Loans to Depository Inst.	1.091	− .601	− 6.412
Float	.753	+ .196	+ .039
Total Reserve Bank Credit	193.554	− .317	+15.250
Treasury Deposits with Federal Reserve Banks	3.790	+ .451	− .143
Currency in Circulation	189.375	+ .615	+11.883
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	128.208	+ .597	+ 9.541
	9/11/85		
Member Bank Reserves:			
Total Reserves Held	43.057	+ .631	+ 5.008
Excess (Deficiency)	.598	− .371	− .036
Net Borrowed Reserves	.125	+ .616	+ .005
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates †			
M1 (9/2/85)	609.8	+ 16.5‡	+ 10.5‡
M2 (August '85)	2,513.3	+ 11.2	+ 9.6
M3 (August '85)	3,136.3	+ 7.9	+ 8.9
Domestic Nonfinancial Debt (1st Q'85)	6,147.0	+ 11.3	+ 13.6

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 9/13/85	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.20%	7.38%	7.56%
* Federal Agencies	8.25	8.70	9.30
* Municipal Notes—High Grade (46% Taxable Equivalent)	9.26	9.54	9.72
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	7.95	8.25	8.65

‡Finance Company Paper—Prime	
5- 14 days	7.80%
15- 29 days	7.90
30- 59 days	7.95
60- 89 days	7.90
90-179 days	7.90
180-239 days	7.90
240-270 days	7.90

‡* Bankers' Acceptances	
Oct.	7.90%
Nov.	7.90
Dec.	7.90
Jan.	8.00
Feb.	8.00
Mar.	8.00

‡Industrial Paper—Prime	
30- 89 days	7.95%
90-120 days	7.95

†Federal Funds Effective Rate	7.80%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'85	$ 3,855	$ 3,811	$ 3,645
Gross National Product (1972 Dollars)*	2nd Q'85	$ 1,672	$ 1,664	$ 1,639
Percent Change, Annual Rate	2nd Q'85	2.0	0.3	7.1
Change in Consumer Prices*	Jul '85	2.4%	2.4%	3.6%
Change in Producer Prices*	Aug '85n	− 3.6%	+ 3.6%	− 2.4%
Civilian Employment (Thousands of Persons) †	Aug '85	107,172	106,862	105,148
Unemployment as % of Civilian Labor Force †	Aug '85	7.0%	7.3%	7.5%
Personal Income*	Jul '85	$ 3,189	$ 3,176	$ 3,028
Leading Indicators Composite Index (1967=100) †	Jul '85	168.7	168.0	163.9
Industrial Production Index (1977=100) †	Aug '85n	124.8	124.4r	123.5
Net Change in Consumer Installment Credit †	Jun '85	$ 6.79	$ 9.04	$ 7.08
U.S. Merchandise Trade Balance †	Jul '85	−$ 10.51	−$ 13.42	−$ 13.77
Plant and Equipment Expenditures*	4th Q'85n	$387.40(a)	$389.54(a) r	$368.29
Private Housing Starts (Thousands of Units)*	Jul '85	1,654	1,694	1,730
New Construction Expenditures*	Jul '85	$ 349.5	$ 345.4	$ 319.1
Total Business Inventories †	Jun '85	$ 580.1	$ 577.8	$ 552.4
Total Business Sales †	Jun '85	$ 419.2	$ 428.3	$ 414.0

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

reflecting the strength of the dollar and the stimulus of the Federal budget deficit have created export-led recoveries abroad which owe little to either strong domestic demand or capital investment. And as our dollars have flowed out to these countries in payment for their exports, they have flowed back into the U.S. in response to our high real interest rates and other investment opportunities, leaving little at home for domestic investment. Consequently, European and Japanese economic growth in the past several years has hung perilously on U.S. economic performance and will continue to do so.

Indeed, although the prospects for growth in Europe and Japan are seen by some observers as improving during the rest of this year and in 1986, this optimistic view is based upon two assumptions; first, that the U.S. economy will experience a new burst of growth, and second, that the restrictive monetary and fiscal policies of these nations will change as several major countries face elections over the next 18 to 24 months. Both assumptions are problematic.

A more realistic scenario is for a continuation of modest growth in the U.S. and the other industrial countries well into 1986. The U.S. economy is expected to grow by about the same rate next year as this year—some 2½ percent. The other industrial countries as a group will also likely average about 2½ percent this year and next. Growth at this rate will not reduce European unemployment. In fact, unemployment may well continue to rise if economic activity slackens in response to a decline in U.S. import demand.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (8/28/85)	156,249	+ 182	– 2,408
New York City (9/4/85)	32,615	+ 395	– 2,405
Commercial Paper (9/4/85)	273,953	+ 2,324	+53,369

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/28/85)	251,583	+ 387	+ 7,421
New York City (9/4/85)	60,751	+ 1,048	– 3,954

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/28/85)	681,891	– 2,707	+ 61,155
New York City (9/4/85)	154,612	+ 5,010	+ 13,370

Financial Markets

	Friday 9/13/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.41%	– .06	– 3.31
180-Day Bills†	7.74	– .05	– 3.36
Longest Bills†	8.10	– .08	– 3.30
Recent Issues:			
$8^{7}/_{8}$s 8/31/87	9.00	– .11	
$9^{5}/_{8}$s 6/30/89	9.65	– .14	
$10^{1}/_{2}$s 8/15/95	10.38	– .10	
$10^{5}/_{8}$s 8/15/15	10.60	– .12	
Municipals:			
Bond Buyer–20 Bond Index* (9/12/85)	9.26%	+ .19	– .84
Blue List Total ($ Million)	$1,874	+ $104	+ $ 341
30-Day Visible Supply ($ Million)	$4,731	+ $257	– $ 78
Total	$6,605	+ $361	+ $ 263
Corporates:			
Moody's Aa Composite (9/12/85)	11.54%	+ .19	– 1.74
30-Day Visible Supply ($ Million)	$2,385	+ $ 95	+ $1,200
Stocks:			
Dow-Jones Averages:			
Industrials	1,307.68	– 28.01	+ 70.16
Transportation	658.47	– 19.08	+ 131.95
Utilities	152.60	– 6.56	+ 19.80
65 Stocks	537.20	– 14.33	+ 57.05
Standard and Poor's 500 Stocks	182.91	– 5.33	+ 14.13
N.Y.S.E. Composite Index	105.85	– 3.20	+ 8.80
N.Y.S.E. Avg. Daily Vol. for Week (000's)	102,854	+13,691	+ 2,086

* 46% Taxable equivalent 17.15%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 9/13/85	Week Ago
Overnight	7.75%	7.63%
1 month	8.19	8.00
3 month	8.38	8.19
6 month	8.63	8.38
1 year	9.06	8.75
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	10.15%	10.15%
Long Term (7 to 15 yrs.)	10.60	10.60

FOREIGN EXCHANGE SPOT RATES

New York Opening (9/13/85)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01698	58.9000
Canada	.7276	1.3743
Denmark	.09398	10.6400
France	.1124	8.8950
Germany	.3426	2.9185
Italy	.0005135	1947.50
Japan	.004127	242.30
Mexico	.002670	374.50
Netherlands	.3052	3.2770
Switzerland	.4157	2.4055
U.K.	1.3365	.7482

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The Manufacturers
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Financial
Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, SEPTEMBER 23, 1985
VOLUME XXII, NUMBER 33

Consumers Go On Spending . . .

To those concerned about a further slowing of the pace of business activity, the "flash" estimate of real GNP growth in the third quarter provided much comfort. According to the Commerce Department's report, the economy is expanding at an inflation-adjusted 2.8 percent annual rate in the current quarter, nearly three times faster than the increase posted during the first half of the year. Among the reasons for the upturn in GNP growth are a probable narrowing of the trade deficit, an increase in government purchases, and perhaps most important, another good-sized increase in consumer spending.

Consumer spending is usually influenced by the near-term outlook for the economy in general and employment and income prospects in particular. On these counts, consumers have reasons to be optimistic. The economy seems to be perking up, inflation rates are relatively low, civilian employment is at a record level and the unemployment rate dropped to seven percent last month after being stuck at 7.3 percent for half a year. In response to these upbeat statistics, the consumer is reappearing in the nation's stores, after several months of indecision. Retail sales rose a strong 1.9 percent in August month-over-month, aided by record new domestic car sales in late August and strong back-to-school shopping. It was the largest monthly increase, with one exception, since April, 1984.

With spending turning decidedly higher, retailers and economists alike are questioning whether it will continue, especially into the all-important Christmas selling season. The answer seems to be yes for 1985, but some clouds on the horizon for 1986. The Conference Board's buying plans index, for example, which measures consumers' intentions to purchase such big-ticket items as automobiles, houses and appliances, rose again in August, even though people's confidence dipped slightly.

The record pace of auto sales in the last ten days of August and early September serves to underscore the fact that the consumer has not run out of steam yet. Although two special circumstances helped car sales reach such levels—the end of the haulers' strike and low financing rates—new domestic car sales should remain relatively strong throughout the rest of the year, especially in light of the fact that the average age of cars on the road is 7½ years—about the oldest in the postwar era. What is more, with dealers' inventories drained by the current sales pace, stock replenishment alone suggests that production levels during late 1985 will probably be higher than anticipated, boding well for GNP growth.

But consumers are stepping up spending on other items as well. Sales of new single-family homes have been moving higher all summer long, buoyed by lower mortgage interest rates. So, too, major home appliance sales have jumped. The home appliance industry expects to ship more than 40 million major appliances in 1985, up about one million units from the record level set one year earlier. One of the main forces behind these record shipments is the need to replace some of the 225 million units that consumers bought in the early 1970s. And, since 95 percent of large appliances sold, excluding microwave ovens, are domestically built, the hard-pressed manufacturing sector will get a lift from this development.

. . . In Spite Of Slower Income Growth . . .

However, one reason why consumers may begin to retrench in 1986 is a slowdown in personal incomes growth. After surging during the initial three quarters of 1984, the rate of growth has tapered off considerably. The largest component, wage and salary disbursements, has not kept pace with earlier periods because employment has expanded more slowly this year. Meanwhile, low inflation rates have kept down cost-of-living adjustments to wages, while for many in industrial America, job security has become more important than pay increases. Interest income growth has also tapered off because of the drop in interest rates. As a result, buying power, or disposable income adjusted for inflation, has fallen in three of the last seven months, and in August was only about 1½ percent higher than its year-earlier level; 12 months ago, the yearly gain in buying power was 7.9 percent.

Not surprisingly, this slowdown in incomes has affected the financial condition of the consumer

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sector. The savings rate in August was the lowest for any month in at least 26 years. And a look at household finances reveals that from the end of the 1981-82 recession to the first quarter of 1985, people's assets grew 17.3 percent, while their liabilities rose 27.1 percent. As a result, consumers' net worth rose by 15½ percent, modest when compared with the 20 percent increases posted during comparable recoveries.

On the asset side, mediocre increases in such tangible assets as houses and land held down the bottom-line total. The value of these assets rose by less than ten percent over the nine-quarter period, owing in part to the low increases in home prices. On the other hand, consumers did rapidly increase their holdings of corporate equities and credit instruments such as government securities and corporate bonds. However, this was not enough to outdistance the jump in liabilities.

. . . And Lofty Debt Levels

The uneven growth in assets and liabilities has fueled concern in some quarters about household indebtedness, especially in the area of consumer credit. Total consumer credit outstanding—paid in installments or in a single, lump-sum payment—rose by a hefty 34 percent between fourth-quarter

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 9/18/85	$ Change Since	
		Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	178.816	– .513	+16.487
Loans to Depository Inst.	1.079	– .012	– 6.244
Float	.392	– .392	– .387
Total Reserve Bank Credit	192.964	– .615	+14.042
Treasury Deposits with Federal Reserve Banks	3.354	– .436	– 2.248
Currency in Circulation	188.682	– .693	+12.123
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	129.130	+ .922	+ 9.886
	9/11/85		
Member Bank Reserves:			
Total Reserves Held	43.079	+ .654	+ 5.030
Excess (Deficiency)	.649	– .322	+ .015
Net Borrowed Reserves	.074	+ .567	– .046
		% Change Since	
Monetary Aggregates †		Three Months Ago*	Year Ago
M1 (9/9/85)	613.4	+ 15.9‡	+ 10.7‡
M2 (August '85)	2,513.4	+ 11.3	+ 9.6
M3 (August '85)	3,136.0	+ 7.8	+ 8.9
Domestic Nonfinancial Debt (2nd Q'85)	6,317.3	+ 12.2	+ 13.6

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 9/20/85	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.02%	7.28%	7.50%
* Federal Agencies	7.95	8.20	9.10
* Municipal Notes—High Grade (46% Taxable Equivalent)	9.26	9.72	10.00
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	7.95	8.10	8.50

‡Finance Company Paper—Prime	
5- 14 days	7.80%
15- 29 days	7.90
30- 59 days	7.88
60- 89 days	7.88
90-179 days	7.88
180-239 days	7.85
240-270 days	7.85

‡* Bankers' Acceptances	
Oct.	7.93%
Nov.	7.93
Dec.	7.93
Jan.	7.93
Feb.	7.93
Mar.	7.93

‡Industrial Paper—Prime	
30- 89 days	7.88%
90-120 days	7.88

†Federal Funds Effective Rate 7.95%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'85	$ 3,853r	$ 3,811	$ 3,645
Gross National Product (1972 Dollars)*	2nd Q'85	$ 1,671r	$ 1,664	$ 1,639
Percent Change, Annual Rate	2nd Q'85	1.9r	0.3	7.1
Change in Consumer Prices*	Jul '85	2.4%	2.4%	3.6%
Change in Producer Prices*	Aug '85	– 3.6%	3.6%	– 2.4%
Civilian Employment (Thousands of Persons)†	Aug '85	107,172	106,862	105,148
Unemployment as % of Civilian Labor Force†	Aug '85	7.0%	7.3%	7.5%
Personal Income*	Aug '85n	$ 3,199	$ 3,190r	$ 3,046
Leading Indicators Composite Index (1967=100)†	Jul '85	168.7	168.0	163.9
Industrial Production Index (1977=100) †	Aug '85	124.8	124.4	123.5
Net Change in Consumer Installment Credit †	Jul '85n	$ 6.25	$ 5.23r	$ 6.48
U.S. Merchandise Trade Balance †	Jul '85	–$ 10.51	–$ 13.42	–$ 13.77
Plant and Equipment Expenditures*	4th Q'85	$387.40(a)	$389.54(a)	$368.29
Private Housing Starts (Thousands of Units)*	Aug '85n	1,749	1,647r	1,590
New Construction Expenditures*	Jul '85	$ 349.5	$ 345.4	$ 319.1
Total Business Inventories †	Jul '85n	$ 579.8	$ 579.7r	$ 557.2
Total Business Sales †	Jul '85n	$ 422.2	$ 418.4r	$ 412.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

1982 and first-quarter 1985. Consumer installment credit soared 20 percent in 1984 alone, the highest annual increase since 1955. Consumer installment debt outstanding now stands at a record 18.7 percent of disposable incomes, and people must now set aside 3.5 percent of their after-tax incomes just to pay the interest on this debt; it was only 2.4 percent, on average, during the 1970s.

However, the Federal Reserve estimates that almost half of the installment credit outstanding is owed by households in the top income bracket. This proportion is a substantial increase from 1977, when the richest households held 36 percent of such credit, and from 1970 when they accounted for only 22 percent. Thus, those who possess the debt are probably the best able to service it, if not take on more, suggesting that worries about indebtedness may be now less appropriate than they have been in the past. Add to this the fact that credit cards are used increasingly for convenience rather than for borrowing, with the holder often paying the entire balance each billing period, and the actual burden of outstanding debt diminishes even further. The Fed estimates that if such convenience use is netted out, the rate of debt to income would be about one percentage point lower than it now is.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since	
		Week Ago	Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (9/4/85)	155,538	– 764	– 1,778
New York City (9/11/85)	32,625	+ 10	– 2,481
Commercial Paper (9/11/85)	273,331	– 662	+48,979

Bank Loans

(Millions of Dollars)

Weekly Reporting Large Commercial Banks	Commercial and Industrial Loans		
	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (9/4/85)	253,303	+ 1,720	+ 7,322
New York City (9/11/85)	60,336	– 415	– 4,706

	Total Loans and Leases Gross Adjusted		
	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (9/4/85)	689,726	+ 7,847	+ 61,438
New York City (9/11/85)	152,335	– 2,320	+ 10,882

Financial Markets

	Friday 9/20/85	Change Since	
		Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.21%	– .20	– 3.46
180-Day Bills†	7.63	+ .11	– 3.38
Longest Bills†	8.03	– .07	– 3.30
Recent Issues:			
9s 9/30/87 (When Issued)	9.01	NA	
9⁵/₈s 6/30/89	9.60	– .05	
10¹/₂s 8/15/95	10.34	– .04	
10⁵/₈s 8/15/15	10.57	– .03	
Municipals:			
Bond Buyer–20 Bond Index* (9/19/85)	9.35%	+ .09	– .60
Blue List Total ($ Million)	$1,958	+ $ 84	+ $ 395
30-Day Visible Supply ($ Million)	$3,786	– $945	+ $ 72
Total	$5,744	– $861	+ $ 467
Corporates:			
Moody's Aa Composite (9/19/85)	11.51%	– .03	– 1.62
30-Day Visible Supply ($ Million)	$2,978	+ $593	+ $1,683
Stocks:			
Dow-Jones Averages:			
Industrials	1,297.94	– 9.74	+ 96.20
Transportation	649.34	– 9.13	+ 130.65
Utilities	152.80	+ .20	+ 17.49
65 Stocks	532.93	– 4.27	+ 61.71
Standard and Poor's 500 Stocks	182.05	– .86	+ 16.38
N.Y.S.E. Composite Index	105.39	– .46	+ 9.72
N.Y.S.E. Avg. Daily Vol. for Week (000's)	97,356	– 5,498	– 8,768

* 46% Taxable equivalent 17.31%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 9/20/85	Week Ago
Overnight	7.88%	7.75%
1 month	8.06	8.19
3 month	8.13	8.38
6 month	8.38	8.63
1 year	8.75	9.06
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	10.27%	10.15%
Long Term (7 to 15 yrs.)	10.68	10.60

FOREIGN EXCHANGE SPOT RATES **New York Opening (9/20/85)**	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01715	58.3000
Canada	.7252	1.3789
Denmark	.09562	10.4580
France	.1136	8.8000
Germany	.3465	2.8858
Italy	.0005149	1942.00
Japan	.004130	242.15
Mexico	.002561	390.50
Netherlands	.3081	3.2453
Switzerland	.4222	2.3685
U.K.	1.3528	.7392

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The Manufacturers Hanover Financial Digest

Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, SEPTEMBER 30, 1985

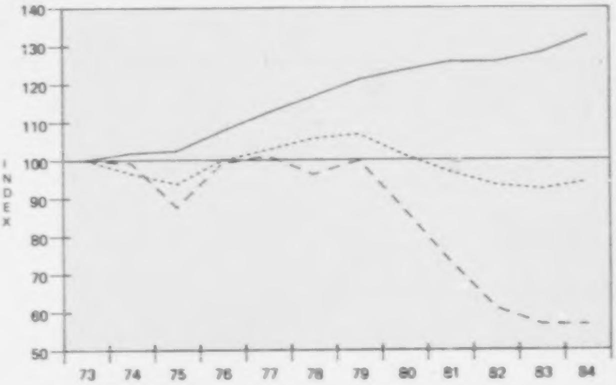
VOLUME XXII, NUMBER 34

Oil Prices May Stabilize . . .

In response to the alarming U.S. merchandise trade deficit and prospects for the enactment of protectionist legislation by Congress, the finance ministers and central bankers of five major industrial countries met last week in New York to discuss both. The immediate result of this meeting was a sharp drop in the external value of the dollar, as market participants anticipated strong official action—some of which indeed did occur—to drive the dollar lower in the foreign exchange markets. And, while it is premature to say whether such actions will be ultimately successful, among the possible side effects of a lower-valued dollar could be stronger economic growth in the United States—but more inflation as well.

The prospects for a pickup in U.S. business activity and a firming of commodity prices will certainly be welcomed by the oil ministers of the Organization of Petroleum Exporting Countries (OPEC). They meet in Vienna this week in order to set oil production quotas for this winter season, and, by so doing, attempt to head off further oil-price weakness. In the near term, oil prices are expected to remain fairly stable, at least through the winter months. For despite some signs of internal OPEC disunity with respect to quotas—which might lead to excess production and thus lower prices—a number of other factors suggest that this event may not materialize.

Perhaps the principal reason for expecting lower oil prices in the near term is the likelihood of a surge in Saudi Arabian oil output. It appears that Saudi Arabia is increasingly willing to abandon its role as OPEC's swing producer and defender of oil prices, if only to discipline other OPEC members that have been producing oil at a rate above their assigned limits. For Saudi Arabia, the role of swing producer has become an increasingly onerous financial burden. Although it conferred upon the country a preeminent position within OPEC and a greater control over prices, it has also saddled the country with the responsibility of periodic and sometimes drastic production cutbacks in times of easing world oil demand, rising non-OPEC oil production or deliberately excessive oil liftings by one or another OPEC producer beyond its quota allocation. As a result, the kingdom's oil output has shrunk nearly 80 percent in recent years, from ten million barrels per day (MBPD) in 1981 to as low as 2.2 MBPD recently. At this rate of output, which is about half its current quota of 4.35 MBPD, the country is not generating enough dollars to pay for already declining imports. Consequently, its balance of trade in goods and services appears headed for yet another $20 billion deficit this year after shortfalls of a similar magnitude in the preceding two years.


TRENDS IN WORLD* GNP (LINE), WORLD OIL CONSUMPTION (DOT), AND OPEC OIL PRODUCTION (DASH) (1973=100)

*Non Communist countries.
Sources: International Monetary Fund; U.S. Department of Energy; British Petroleum Co.

. . . In The Winter Months . . .

Responding to financial pressures, Saudi Arabia is beginning to act less as the leader of a price-fixing cartel than as an economic entity more willing to barter, discount and deal in accordance with market forces. Apparently taking effect on October 1, Saudi Arabia has announced that it will increase oil output by one million barrels per day, much of which is to be sold to three American companies at prices reflecting those of the refined products that will be produced. That would imply a discount of $2 to $3 from official prices. What is more, the country will price output freely in the future, although limiting production to within its quota. All in all, the increase in the oil output—and in the world oil supply—could amount to two million barrels per day should Saudi Arabia push production to the limit of its current quota.

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Such an increase is, however, expected to be readily absorbed by the world market over the next six months. For one thing, world demand increases during the cold season in the Northern Hemisphere, which alone could take up about 1.5 MBPD of the new supply under normal winter conditions. For another, some part of the new supply may be diverted to the rebuilding of depleted crude oil inventories, which are calculated to be at near record lows. Finally, a shortfall in Soviet oil output in the first eight months of this year, amounting to more than 450,000 barrels per day below a year ago, may translate into a source of new demand for Mideast oil. For all these reasons, and barring any significant increases in output from other sources within or outside of OPEC, oil prices should be fairly stable in the near term.

. . . Only To Decline Afterwards

Beyond the winter season, world demand for oil may also get a boost from the effort of the five major industrial countries to dampen the external value of the dollar. A lower dollar would make oil cheaper for the rest of the world in terms of their local currencies, since oil imports are paid for in dollars. The lower local currency price should raise the demand for oil by slowing the substitution of other fuels for it. It may also stimulate an increase in economic growth in these countries which will, in turn, translate into some rise in demand for oil. Finally, if the lower value of the dollar also improves economic performance in the United States, by making this country more competitive in world markets, U.S. demand for oil may also increase.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 9/25/85	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	181.744	+ 2.928	+16.914
Loans to Depository Inst.	1.262	+ .183	− 5.634
Float	.464	+ .072	+ .577
Total Reserve Bank Credit	196.322	+ 3.358	+15.372
Treasury Deposits with Federal Reserve Banks	6.601	+ 3.247	− 1.809
Currency in Circulation	187.532	− 1.150	+12.150
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	128.042	− 1.088	+12.206
	9/25/85		
Member Bank Reserves:			
Total Reserves Held	43.034	− .090	+ 5.352
Excess (Deficiency)	.561	− .123	+ .034
Net Free Reserves	.046	+ .085	+ .260

		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M1 (9/16/85)	610.4	+ 15.4‡	+ 10.8‡
M2 (August '85)	2,513.8	+ 11.3	+ 9.6
M3 (August '85)	3,136.0	+ 7.8	+ 8.9
Domestic Nonfinancial Debt (2nd Q'85)	6,317.3	+ 12.2	+ 13.6

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 9/27/85	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.00%	7.05%	7.42%
* Federal Agencies	7.93	8.12	8.02
* Municipal Notes—High Grade (46% Taxable Equivalent)	9.24	9.49	9.92
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	7.70	7.90	8.20

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	7.70%	Oct.	7.80%
15- 29 days	7.65	Nov.	7.80
30- 59 days	7.65	Dec.	7.80
60- 89 days	7.65	Jan.	7.80
90-179 days	7.65	Feb.	7.80
180-239 days	7.60	Mar.	7.75
240-270 days	7.60		

‡Industrial Paper—Prime			
30- 89 days	7.65%	†Federal Funds	
90-120 days	7.65	Effective Rate	7.88%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'85	$ 3,853	$ 3,811	$ 3,645
Gross National Product (1972 Dollars)*	2nd Q'85	$ 1,671	$ 1,664	$ 1,639
Percent Change, Annual Rate	2nd Q'85	1.9	0.3	7.1
Change in Consumer Prices*	Aug '85n	2.4%	2.4%	4.8%
Change in Producer Prices*	Aug '85	− 3.6%	3.6%	− 2.4%
Civilian Employment (Thousands of Persons)†	Aug '85	107,172	106,862	105,148
Unemployment as % of Civilian Labor Force†	Aug '85	7.0%	7.3%	7.5%
Personal Income*	Aug '85	$ 3,199	$ 3,190	$ 3,046
Leading Indicators Composite Index (1967=100)†	Jul '85	168.7	168.0	163.9
Industrial Production Index (1977=100) †	Aug '85	124.8	124.4	123.5
Net Change in Consumer Installment Credit †	Jul '85	$ 6.25	$ 5.23	$ 6.48
U.S. Merchandise Trade Balance †	Aug '85n	−$ 9.90	−$ 10.51	−$ 10.09
Plant and Equipment Expenditures*	4th Q'85	$387.40(a)	$389.54(a)	$368.29
Private Housing Starts (Thousands of Units)*	Aug '85	1,749	1,647	1,590
New Construction Expenditures*	Jul '85	$ 349.5	$ 345.4	$ 319.1
Total Business Inventories †	Jul '85	$ 579.8	$ 579.7	$ 557.2
Total Business Sales †	Jul '85	$ 422.2	$ 418.4	$ 412.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

Nevertheless, the longer-term outlook for the price of oil appears downward. Non-OPEC oil supplies, which now account for approximately 70 percent of global supplies compared with some 55 percent just five years ago, continue to rise with the rate of increase averaging one MBPD in the last two years. New supplies will come in part from such developing countries as India, Colombia and Egypt, all of which will either substitute domestic output for foreign oil supplies, or seek to export oil beyond their domestic needs in order to earn much-needed foreign exchange. The shrinking role of OPEC as a supplier of the world's oil needs should diminish the organization's ability to hold the line on world oil prices.

So, too, ongoing energy conservation and substitution of coal and other energy sources for oil, will dampen the rise in demand for oil even as world economic activity continues to expand (see chart on page 1). These alternative fuels now account for a shade more than 60 percent of the world's energy needs, up from 53.6 percent in 1973. In particular, coal's share has risen to over 30 percent currently from 28.4 percent in 1973, while that for natural gas has correspondingly edged up to nearly 20 percent from 18.3 percent. Because of the increasing importance of these other fuels, the world's consumption of oil, at less than 59 MBPD in 1984, was lower than the amount consumed in 1976. To be sure, as oil prices slide, conservation and substitution efforts may be de-emphasized, and in some cases abandoned; while this could put a brake on the decline in prices, it will not halt it entirely.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (9/11/85)	156,357	+ 1,257	– 622
New York City (9/18/85)	32,404	– 221	– 2,909
Commercial Paper (9/18/85)	276,163	+ 2,832	+49,598

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/11/85)	252,765	– 792	+ 8,384
New York City (9/18/85)	60,836	+ 500	– 4,538

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/11/85)	687,594	– 2,371	+ 63,391
New York City (9/18/85)	154,299	+ 2,088	+ 12,907

Financial Markets

	Friday 9/27/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.27%	+ .06	– 3.32
180-Day Bills†	7.40	– .23	– 3.59
Longest Bills†	7.95	– .08	– 3.35
Recent Issues:			
9s 9/30/87	8.76	– .25	
$9\frac{5}{8}$s 6/30/89	9.42	– .18	
$10\frac{1}{2}$s 8/15/95	10.22	– .12	
$10\frac{5}{8}$s 8/15/15	10.50	– .07	
Municipals:			
Bond Buyer–20 Bond Index* (9/25/85)	9.38%	+ .03	– .77
Blue List Total ($ Million) (9/20/85)	$1,958	+ $ 84	+ $ 395
30-Day Visible Supply ($ Million) (9/20/85)	$3,786	– $945	+ $ 72
Total (9/20/85)	$5,744	– $861	+ $ 467
Corporates:			
Moody's Aa Composite (9/25/85)	11.49%	– .02	– 1.75
30-Day Visible Supply ($ Million) (9/20/85)	$2,978	+ $593	+ $1,683
Stocks:			
Dow-Jones Averages: (9/26/85)			
Industrials	1,320.79	+ 14.00	+ 104.03
Transportation	643.61	– 10.42	+ 124.17
Utilities	150.08	– 3.64	+ 11.69
65 Stocks	535.63	– .93	+ 59.20
Standard and Poor's 500 Stocks	181.29	– 2.10	+ 14.33
N.Y.S.E. Composite Index	104.82	– 1.18	+ 8.63
N.Y.S.E. Avg. Daily Vol. for Week (000's)	100,220	+ 2,864	+ 13,938

* 46% Taxable equivalent 17.37%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 9/27/85	Week Ago
Overnight	7.50%	7.88%
1 month	7.81	8.06
3 month	7.94	8.13
6 month	8.06	8.38
1 year	8.25	8.75
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	10.01%	10.27%
Long Term (7 to 15 yrs.)	10.52	10.68

FOREIGN EXCHANGE SPOT RATES

New York Opening (9/27/85)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01851	54.0300
Canada	.7345	1.3614
Denmark	.1032	9.6875
France	.1230	8.1300
Germany	.3745	2.6700
Italy	.0005549	1802.00
Japan	.004571	218.75
Mexico	.002670	374.50
Netherlands	.3328	3.0045
Switzerland	.4571	2.1875
U.K.	1.4075	.7105

15th Century: Lorenzo de Medici and his family lead the cultural flowering of Florence.

1508: Pope Julius II commissions Michelangelo to paint the Sistine ceiling.

1717: George I is honored by the composition of Handel's *Water Music*.

18th Century: Thomas Jefferson becomes a noted patron of the arts.

1829: James Smithson of London bequeaths his fortune to the U.S. to establish a museum.

1892: Andrew Carnegie provides the funds to build Carnegie Hall.

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Among the recent events which Manufacturers Hanover helped make possible: *The Vatican Collections: The Papacy and Art*, Metropolitan Museum of Art, Spring 1984; *Van Gogh in Arles*, Metropolitan Museum of Art, Fall 1984; *Treasures from The New York Public Library*, Spring 1985. Two ongoing programs for which we provide support are the American Ballet Theater and the subtitle program of the New York City Opera.

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The Manufacturers Hanover
Financial Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, OCTOBER 7, 1985
VOLUME XXII, NUMBER 35

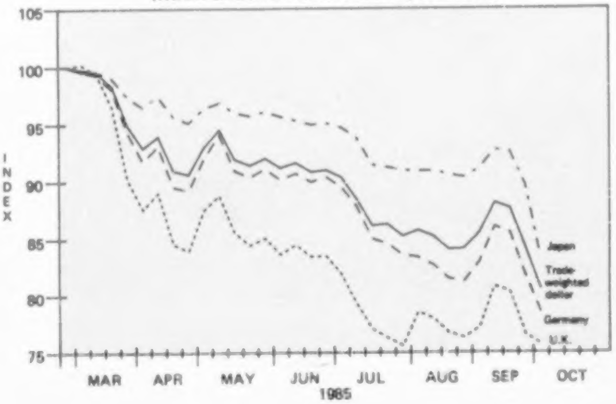
A Lower-Valued Dollar . . .

Against the backdrop of several signs of a pickup in business activity, still rapid M1 money supply growth and a steep decline in the external value of the dollar, the Federal Reserve's policy-setting Federal Open Market Committee met last week to decide where to go from here. To some observers, prospects for more rapid economic growth and well above-target money numbers warrant a firming of the money and credit reins. To others, the still soggy pace of business throughout a good chunk of the manufacturing sector, tumbling commodity prices and stepped-up efforts to lower the dollar's external value, all suggest that a case could be made for an easier monetary policy. In light of this dilemma, what's a policymaker to do? It seems that the best course would be to walk a fine line between either further ease or tightening, thereby putting monetary policy initiatives on hold one more time.

In practical terms, such a steady policy course suggests the continuation of generous reserves provisioning to the banking system, further tolerance of today's M1 bulge—while attempting to keep both M2 and M3 at or near their respective target bands—and generally steady interest rates. By keeping to the middle ground, the Fed minimizes the potential for an overheating of business activity and more inflation on the one hand, or an uptick in the dollar's relative value and further weakness in the goods-producing sector on the other. If so, then it appears a good bet that the combination of stable interest rates and a lower-valued dollar will provide the fuel necessary for faster, rather than slower growth in the months ahead, and a broadening of today's business expansion beyond such interest rate-sensitive industries as housing and automobiles, to—at long last—those industries which either compete with imports, or export abroad.

. . . And A Narrower Trade Deficit . . .

It is these latter industries which have received increasing attention in recent months—from the press to economists to Congress which now has before it a volume of pending protectionist legislation unprecedented in the postwar era. The strong dollar has been a key factor inhibiting U.S. economic growth over the past year since it has placed numerous goods-producing industries in their own mini-recession. Industrial production today is only a shade higher than a year ago, and capacity utilization nationwide—which now stands at 80.5 percent—is actually 1.5 percentage points below a year ago. Thus, the decline in the dollar's external value of more than 19 percent on a trade-weighted basis since it reached record highs at the end of last February (see chart) has been welcomed by a broad cross-section of industries. The lower dollar should eventually curb imports of foreign goods, help American products compete more effectively in the world markets, stimulate employment and, last but not least, cool the surge of protectionist sentiment.


INDEXES OF TRADE-WEIGHTED U.S. DOLLAR AND U.S. DOLLAR VS. SELECTED FOREIGN CURRENCIES (WEEK ENDING FEBRUARY 27, 1985=100)

The dollar's descent raises the hope that some of the imbalances which developed during its unprecedented climb will soon be reversed—especially the widening divergence between domestic demand and production. Real domestic demand, or the GNP less the trade deficit, advanced at an average annual rate of more than 3½ percent in the January-June period, or well above the anemic, 1.1 percent, inflation-adjusted GNP growth rate reported for the period. This strong domestic demand did not result in a corresponding growth in domestic output, because a big chunk of it was satisfied from abroad.

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The inflation-adjusted net export deficit in the GNP widened by some $20½ billion in the first half of 1985 compared with yearend 1984—subtracting almost 2½ percentage points from the real GNP growth rate.

Although it is still premature to expect that the recent slide in the dollar's value has begun to reduce the trade deficit, the trend in July and August may be a sign of what's to come. In those months, the red-ink total narrowed by more than 20 percent compared with the immediately preceding two months. Although the shrinking of the trade deficit was due almost exclusively to a decline in imports while exports remained virtually stagnant, the import drop does not, however, appear to be associated with a slowing in domestic business activity. On the contrary, the Commerce Department's "flash" estimate of inflation-adjusted GNP growth of 2.8 percent annual rate in the third quarter, nearly three times faster than the increase posted during the first half of the year, implies that the business expansion may be picking up steam, and will soon be reinforced by the positive effects of a lower dollar. Indeed, the narrower third quarter trade deficit now taking shape could add up to one full percentage point to the GNP "flash" estimate already released.

. . . Could Spell Faster Growth

The primary beneficiary of reduced imports will be the goods-producing sector, particularly hard-hit manufacturing industries, which in September posted the steepest drop in employment in nearly three

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 10/2/85	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	178.046	– 3.698	+15.687
Loans to Depository Inst.	1.440	+ .178	– 4.733
Float	1.271	+ .803	+ .853
Total Reserve Bank Credit	193.581	– 2.750	+12.515
Treasury Deposits with Federal Reserve Banks	3.672	– 2.929	– 4.070
Currency in Circulation	187.486	– .046	+11.858
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	125.921	– 2.121	+ 9.250
	9/25/85		
Member Bank Reserves:			
Total Reserves Held	43.075	– .037	+ 5.393
Excess (Deficiency)	.643	– .017	+ .116
Net Free Reserves	.128	+ .191	+ .342

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (9/23/85)	609.8	+ 14.3‡	+ 10.8‡
M2 (August '85)	2,513.7	+ 11.2	+ 9.6
M3 (August '85)	3,136.4	+ 7.9	+ 8.9
Domestic Nonfinancial Debt (2nd Q'85)	6,317.3	+ 12.2	+ 13.6

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 10/4/85	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	6.95%	7.21%	7.38%
* Federal Agencies	7.85	8.30	9.10
* Municipal Notes—High Grade (46% Taxable Equivalent)	8.89	8.98	9.63
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	7.75	7.85	8.15

‡Finance Company Paper—Prime	
5- 14 days	7.60%
15- 29 days	7.65
30- 59 days	7.70
60- 89 days	7.75
90-179 days	7.75
180-239 days	7.70
240-270 days	7.70

‡* Bankers' Acceptances	
Nov.	7.70%
Dec.	7.70
Jan.	7.70
Feb.	7.70
Mar.	7.70
Apr.	7.70

‡Industrial Paper—Prime	
30- 89 days	7.73%
90-120 days	7.75

†Federal Funds Effective Rate 7.65%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'85	$ 3,853	$ 3,811	$ 3,645
Gross National Product (1972 Dollars)*	2nd Q'85	$ 1,671	$ 1,664	$ 1,639
Percent Change, Annual Rate	2nd Q'85	1.9	0.3	7.1
Change in Consumer Prices*	Aug '85	2.4%	2.4%	4.8%
Change in Producer Prices*	Aug '85	– 3.6%	3.6%	– 2.4%
Civilian Employment (Thousands of Persons)†	Sep '85n	107,544	107,172	105,394
Unemployment as % of Civilian Labor Force†	Sep '85n	7.1%	7.0%	7.4%
Personal Income*	Aug '85	$ 3,199	$ 3,190	$ 3,046
Leading Indicators Composite Index (1967=100)†	Aug '85n	170.1	169.0r	164.4
Industrial Production Index (1977=100) †	Aug '85	124.8	124.4	123.5
Net Change in Consumer Installment Credit †	Jul '85	$ 6.25	$ 5.23	$ 6.48
U.S. Merchandise Trade Balance †	Aug '85	–$ 9.90	–$ 10.51	–$ 10.09
Plant and Equipment Expenditures*	4th Q'85	$387.40(a)	$389.54(a)	$368.29
Private Housing Starts (Thousands of Units)*	Aug '85	1,749	1,647	1,590
New Construction Expenditures*	Aug '85n	$ 344.0	$ 340.2r	$ 321.2
Total Business Inventories †	Jul '85	$ 579.8	$ 579.7	$ 557.2
Total Business Sales †	Jul '85	$ 422.2	$ 418.4	$ 412.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

years. Consumers, who account for nearly two-thirds of all purchases economy-wide, have yet to show any signs of retrenching from their recent spending spree. In fact, the Conference Board's buying plans index, which measures consumers' intentions to purchase such big-ticket items as automobiles, houses and appliances, rose sharply in the past two months and now stands at the highest level since June, 1984.

But what may be different in the current quarter is that consumers seem to be buying more domestic products and fewer imports. Manufacturers' new orders for consumer goods and materials have risen for two consecutive months. What is more, this pickup in demand for domestic goods could be quickly translated to a stepped-up level of production since inventories economy-wide remain very lean. And if stronger demand persists, which is likely in view of the Holiday season now approaching, businesses will begin to rebuild inventories to avoid losing sales.

What it all adds up to is that the economy may well be on the threshold of faster growth for the remainder of this year. One of the indications that the pace of business activity may be quickening in the coming months came from the government's index of leading economic indicators, believed to be a key barometer of future economic activity. It rose a respectable 0.7 percent both in July and August—the best back-to-back gain since the beginning of the year.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (9/18/85)	156,437	+ 139	– 1,413
New York City (9/25/85)	32,582	+ 178	– 2,342
Commercial Paper (9/25/85)	278,429	+ 2,266	+51,202

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/18/85)	253,662	+ 898	+ 5,535
New York City (9/25/85)	60,450	– 386	– 3,668

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/18/85)	689,332	+ 1,915	+ 58,076
New York City (9/25/85)	151,439	– 2,860	+ 11,937

Financial Markets

	Friday 10/4/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.17%	– .10	– 3.39
180-Day Bills†	7.61	+ .21	– 3.35
Longest Bills†	7.96	+ .01	– 3.37
Recent Issues:			
9s 9/30/87	8.84	+ .08	
$9\frac{5}{8}$s 6/30/89	9.52	+ .10	
$10\frac{1}{2}$s 8/15/95	10.34	+ .12	
$10\frac{5}{8}$s 8/15/15	10.62	+ .12	
Municipals:			
Bond Buyer—20 Bond Index* (10/3/85)	9.33%	– .05	– 1.01
Blue List Total ($ Million)	$1,863	+$ 26	+ $108
30-Day Visible Supply ($ Million)	$2,748	–$1,579	– $946
Total	$4,611	–$1,553	– $838
Corporates:			
Moody's Aa Composite (10/3/85)	11.52%	+ .07	– 1.75
30-Day Visible Supply ($ Million)	$1,345	–$1,095	– $110
Stocks:			
Dow-Jones Averages:			
Industrials	1,328.74	+ 7.95	+ 146.21
Transportation	647.24	+ 3.63	+ 132.21
Utilities	155.16	+ 5.08	+ 16.88
65 Stocks	540.96	+ 5.33	+ 73.60
Standard and Poor's 500 Stocks	183.22	+ 1.93	+ 20.54
N.Y.S.E. Composite Index	105.94	+ 1.12	+ 12.05
N.Y.S.E. Avg. Daily Vol. for Week (000's)	122,096	+21,876	+ 38,968

* 46% Taxable equivalent 17.28%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 10/4/85	Week Ago
Overnight	7.75%	7.50%
1 month	7.94	7.81
3 month	8.00	7.94
6 month	8.13	8.06
1 year	8.50	8.25
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	10.08%	10.01%
Long Term (7 to 15 yrs.)	10.60	10.52

FOREIGN EXCHANGE SPOT RATES

New York Opening (10/4/85)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01886	53.0300
Canada	.7328	1.3646
Denmark	.1055	9.4750
France	.1255	7.9700
Germany	.3834	2.6080
Italy	.0005669	1764.00
Japan	.004696	212.95
Mexico	.002706	369.50
Netherlands	.3400	2.9415
Switzerland	.4694	2.1305
U.K.	1.4323	.6982

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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

FRIDAY, OCTOBER 11, 1985
VOLUME XXII, NUMBER 36

Housing Remains Strong . . .

With one of the twin locomotives of the economy, automobiles, chugging ahead at high sales and production levels, attention is now focusing on whether the other one, housing, is also speeding up the track—or stalled on a siding. The week's release of the housing starts figures for September—whether the number is good or bad—will only add fuel to any such discussion.

One way of determining how housing might perform for the rest of 1985 is to look at how it has done so far this year. For the first eight months, housing starts averaged a seasonally adjusted annual rate of 1.76 million units, or about 4.3 percent below the 1.84 million unit rate of the comparable period of 1984. At the end of last year, however, housing starts shrank significantly. Thus if home construction holds steady during the remainder of this year, 1985 could displace 1984 as the best year for the housing industry since 1978—when over two million houses were started. And with permits, an indicator of future construction, up 13.7 percent in August over a year ago, the coming months could well be strong.

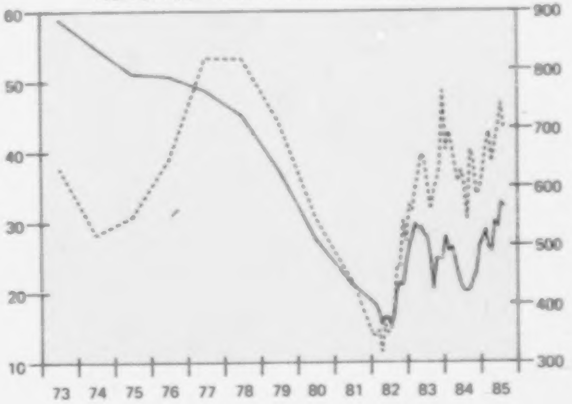
One of the biggest surprises in homebuilding has been the resurgence of construction in the Northeast. Starts in the New England and Middle Atlantic states for the January-August period were up 25 percent from the comparable months of 1984. In contrast, starts in the West were up only 4.4 percent, and in the South and Midwest, they dropped 14.1 percent and 7.2 percent, respectively. A major reason for the Northeast's present strength is that the transition from a traditional manufacturing economy to services and high-technology oriented industries seems to be over. This has created large areas of economic stability and prosperity.

Moreover, what support there has been this year for the slumping apartment-building sector has come from the Northeast, particularly in the metropolitan areas of Boston and New York City. Construction of buildings with five or more units doubled in the Northeast in the first two quarters of 1985 compared with the same period last year. For the rest of the nation, apartment starts fell 8.5 percent.

. . . Supported By Improved Affordability . . .

With the high cost of credit, builders will only start construction if they are sure of a market for their completed houses. Here the news is good. Although new single-family home sales did drop 5.6 percent from July to August, this came after an upward revision in July's figures, rather than a reversal of housing's prospects. In fact, home sales have averaged a rate of more than 700,000 for the last three months—the highest for any three-month period since the summer of 1979.

PERCENT OF HOUSEHOLDS THAT CAN AFFORD TO BUY A NEW HOME (LINE) VS. NEW SINGLE-FAMILY HOMES SOLD (DOT)



Relative stability in home prices coupled with the recent drop in mortgage rates and continuing growth in personal incomes have made homes more affordable for more people. As the chart shows, the percentage of households that can afford to buy a new home has bounced up from its 1982 lows, helping sales rise as well. Using the rule of thumb that only 25 percent of a household's gross income should go to housing expenses, only 17 percent of all households could afford a home in April 1982, when the median price was $70,200 and conventional mortgages had a fixed interest rate of 17.5 percent. Now that fixed rates have fallen to little more than 12 percent and home price increases have slowed, about 37 percent of potential homebuyers

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can service a mortgage. Moreover, if adjustable-rate mortgages with the going interest rate of about 10.5 percent are included, the percent bumps up to 42 percent. Another result of the increased affordability is that more people are planning to buy homes. In a Conference Board survey of consumers in September, 3.5 percent said they intend to buy a house within the next six months, up from 2.9 percent at the end of last year.

. . . And Leaner Inventories

The high sales rates of the summer reduced the supply of unsold new homes to 5.8 months. This level is more manageable than at the end of 1984 when it was seven months—not to mention during late 1981, when there was a nine to 11 months' supply of unsold homes. Further, the low inventory should support a good fourth quarter for housing, since builders can worry less about oversupply.

The market for existing homes has also been healthy. Sales in August were at a seasonally adjusted annual rate of 3.43 million units, the highest rate since November 1979. Once again, affordability is the catalyst. The National Association of Realtors' Affordability Index—which compares the median family income as a percent of the income needed to purchase a median-priced existing home—rose to 94.8, the highest level in six years. This means that a family with the median income would have to use 26.4 percent of their gross earnings to service the mortgage on a median-priced home. Although this is still higher than the 25 percent standard, it is much

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 10/9/85	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	177.986	– .060	+18.528
Loans to Depository Inst.	1.349	– .091	– 4.808
Float	.817	– .455	+ .267
Total Reserve Bank Credit	193.293	– .291	+15.010
Treasury Deposits with			
Federal Reserve Banks	2.909	– .763	– 1.733
Currency in Circulation	188.764	+ 1.276	+11.739
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	125.778	– .143	+ 8.869
	10/9/85		
Member Bank Reserves:			
Total Reserves Held	43.688	+ .599	+ 5.612
Excess (Deficiency)	.826	+ .156	– .078
Net Free Reserves	.058	– .097	+ .172
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M1 (9/30/85)	615.0	+ 13.5‡	+ 11.0‡
M2 (September '85)	2,528.4	+ 9.0	+ 9.5
M3 (September '85)	3,163.3	+ 7.8	+ 9.0
Domestic Nonfinancial Debt (2nd Q'85)	6,317.3	+ 12.2	+ 13.6

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 10/11/85	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.21%	7.36%	7.47%
* Federal Agencies	8.10	8.45	9.10
* Municipal Notes—High Grade (46% Taxable Equivalent)	9.07	9.26	9.63
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	7.80	8.03	8.25

‡Finance Company Paper—Prime	
5- 14 days	7.80%
15- 29 days	7.80
30- 59 days	7.80
60- 89 days	7.80
90-179 days	7.85
180-239 days	7.85
240-270 days	7.85

‡* Bankers' Acceptances	
Nov.	7.82%
Dec.	7.82
Jan.	7.82
Feb.	7.82
Mar.	7.82
Apr.	7.82

‡Industrial Paper—Prime	
30- 89 days	7.80%
90-120 days	7.85

†Federal Funds	
Effective Rate	8.28%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'85	$ 3,853	$ 3,811	$ 3,645
Gross National Product (1972 Dollars)*	2nd Q'85	$ 1,671	$ 1,664	$ 1,639
Percent Change, Annual Rate	2nd Q'85	1.9	0.3	7.1
Change in Consumer Prices*	Aug '85	2.4%	2.4%	4.8%
Change in Producer Prices*	Sep '85n	– 7.2%	– 3.6%	0.0%
Civilian Employment (Thousands of Persons)†	Sep '85	107,544	107,172	105,394
Unemployment as % of Civilian Labor Force†	Sep '85	7.1%	7.0%	7.4%
Personal Income*	Aug '85	$ 3,199	$ 3,190	$ 3,046
Leading Indicators Composite Index (1967=100)†	Aug '85	170.1	169.0	164.4
Industrial Production Index (1977=100) †	Aug '85	124.8	124.4	123.5
Net Change in Consumer Installment Credit †	Aug '85n	$ 6.31	$ 6.25	$ 6.02
U.S. Merchandise Trade Balance †	Aug '85	–$ 9.90	–$ 10.51	–$ 10.09
Plant and Equipment Expenditures*	4th Q'85	$387.40(a)	$389.54(a)	$368.29
Private Housing Starts (Thousands of Units)*	Aug '85	1,749	1,647	1,590
New Construction Expenditures*	Aug '85	$ 344.0	$ 340.2	$ 321.2
Total Business Inventories †	Jul '85	$ 579.8	$ 579.7	$ 557.2
Total Business Sales †	Jul '85	$ 422.2	$ 418.4	$ 412.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

lower than the 30 percent needed a year ago, and the peak of 36 percent posted in 1981. And while the resale market does not contribute directly to the home construction industry, it does help housing-dependent manufacturers by raising demand for such items as furniture and appliances.

For those who have already taken the home-ownership plunge, home improvements have become an important activity which has also helped to push our economy. Real investment on additions and alterations of residential structures grew at a 12 percent annual rate in the second quarter, after rising at a 23 percent annual rate in the first quarter of this year. In contrast, the economy as a whole expanded at annual rates of only 0.3 and 1.9 percent in the first and second quarters.

Nonetheless, the track ahead for the housing industry is not entirely smooth. Mortgage delinquency rates are still high, causing many mortgage lenders to tighten up on income and downpayment requirements. More important, the potential impact of the proposed Federal tax reforms has caused many builders and buyers to take a "wait and see" position. The proposed changes in the tax codes would disallow certain deductions for home-ownership, especially vacation and second homes. They would also eliminate tax-exempt bonds issued by states or municipalities to provide funds for low-cost mortgages. The National Association of Realtors estimates that such tax changes would add $1,100 to $2,400 to the annual cost of home-ownership, again barring a sizable segment of our population from buying. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (9/25/85)	155,182	+ 1,787	– 2,126
New York City (10/2/85)	32,945	+ 363	– 1,923
Commercial Paper (10/2/85)	279,123	+ 694	+50,865

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/25/85)	664,457	– 1,839	+ 51,811
New York City (10/2/85)	60,547	+ 97	– 4,395

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/25/85)	687,042	– 2,293	+ 58,510
New York City (10/2/85)	154,664	+ 3,190	+ 13,794

Financial Markets

	Friday 10/11/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.45%	+ .28	– 2.85
180-Day Bills†	7.72	+ .11	– 2.98
Longest Bills†	8.04	+ .08	– 2.96
Recent Issues:			
9s 9/30/87	8.94	+ .10	
$9^{5}/_{8}$s 6/30/89	9.63	+ .11	
$10^{1}/_{2}$s 8/15/95	10.33	– .01	
$10^{5}/_{8}$s 8/15/15	10.60	– .02	
Municipals:			
Bond Buyer–20 Bond Index* (10/10/85)	9.25%	– .08	– 1.11
Blue List Total ($ Million)	$1,707	–$ 156	+ $ 76
30-Day Visible Supply ($ Million)	$4,583	+$1,835	+ $1,188
Total	$6,290	+$1,679	+ $1,264
Corporates:			
Moody's Aa Composite (10/10/85)	11.51%	– .01	– 1.74
30-Day Visible Supply ($ Million)	$2,435	+$1,090	+ $1,587
Stocks:			
Dow-Jones Averages:			
Industrials	1,339.94	+ 11.20	+ 149.24
Transportation	647.47	+ .23	+ 130.07
Utilities	154.08	– 1.08	+ 13.33
65 Stocks	543.11	+ 2.15	+ 72.05
Standard and Poor's 500 Stocks	184.28	+ 1.06	+ 20.10
N.Y.S.E. Composite Index	106.56	+ .62	+ 11.77
N.Y.S.E. Avg. Daily Vol. for Week (000's)	96,046	–26,050	+ 16,636

* 46% Taxable equivalent 17.13%.

† Bond equivalent.

International Rates

	Friday 10/11/85	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	7.81%	7.75%
1 month	7.94	7.94
3 month	8.13	8.00
6 month	8.25	8.13
1 year	8.63	8.50
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	10.12%	10.08%
Long Term (7 to 15 yrs.)	10.62	10.60

FOREIGN EXCHANGE SPOT RATES

New York Opening (10/11/85)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01854	53.9300
Canada	.7298	1.3703
Denmark	.1040	9.6150
France	.1235	8.1000
Germany	.3766	2.6550
Italy	.0005577	1793.00
Japan	.004639	215.55
Mexico	.002500	400.00
Netherlands	.3337	2.9965
Switzerland	.4581	2.1830
U.K.	1.4120	.7082

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The Manufacturers
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Financial
Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, OCTOBER 21, 1985 VOLUME XXII, NUMBER 37

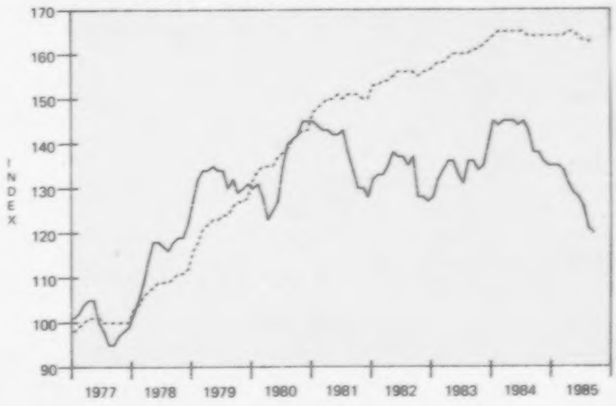
A Big Crop Of Problems . . .

Over the past three years Americans have enjoyed one of the strongest business expansions in the postwar period. Rising levels of employment, production and incomes, combined with low inflation rates, have brought a tide of prosperity to many sectors of the economy. However, these good times have bypassed some segments of the economy almost completely, one of the more important of which is agriculture. American farmers are battling the worst economic crisis since the days of the Great Depression, and there is little on the horizon to suggest that their plight will improve any time soon.

Falling farmgate prices, record crop production and inventories, declining exports, and plummeting farm-asset values are plaguing the U.S. agricultural sector. During the 12 months ending in September, farm commodities' prices dropped 13 percent, falling to their lowest level since November, 1978. What is more, hefty government surpluses of farm products, a bumper harvest this year, increased agricultural production abroad and the strong dollar are all threatening to depress prices even further. And while the downward farm-price spiral should ease the pressure on consumers' wallets as well as help keep inflation in check for the economy as a whole, it threatens to further aggravate the financial difficulties of farmers—a problem compounded by the fact that farmers' expenses are not falling in step with prices they received for their output. In the year ending September, farmers' costs of operation edged down only 1.2 percent (see chart).

As a result of this, the U.S. Department of Agriculture projects that net farm income in 1985 should total somewhere between $23 billion and $27 billion, down sharply from $34½ billion posted last year. The decline in farm income has a direct impact on farmers' ability to service debt. The nation's approximately 2.3 million farmers held $212 billion of debt as of the beginning of this year and it is estimated that nearly a fifth of this total was owed by farmers considered either insolvent or in extreme financial difficulties. Another quarter was held by farmers said to be in serious financial difficulties, indicating that just about one-half of the nation's farm debt outstanding falls into one of these two groups.

INDEX OF PRICES RECEIVED BY FARMERS (LINE) VS.
INDEX OF PRICES PAID BY FARMERS (DOT). <1977=100>



. . . Plagues American Farmers . . .

One reason for farmers' financial distress is the falling value of farm assets. The value of farmland, which accounts for about three quarters of the total value of all farm assets, declined 12 percent during the year ending in April—the largest one-year drop since the Great Depression. This tumble marked the fourth consecutive year of falling prices for farmland. Since farmland was often used as collateral to get loans, plunging land values have eroded the collateral backing up loans made during the 1970s and early 1980s, when land prices were rising. Prospects for a recovery in land values in the near term are not promising. An oversupply of farmland continues to weigh heavily on the market.

Nor can farmers expect help from their traditional export markets. Last year, U.S. agricultural exports stood 13 percent below their record level set in 1981. During the first three quarters of 1985, agricultural exports were 21½ percent below exports for the same period last year. Numerous factors such as sluggish economic growth worldwide, liquidity

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problems in developing countries, increased agricultural production in major importing countries—not to mention the strong dollar—have contributed to this poor export performance. As a result, the U.S. market share of global agricultural exports dipped from 20 percent in 1981, when it peaked, to about 17 percent today.

. . . And Farm-Related Industries

The farm plight is affecting the health of Main Street in rural America, where banks, agricultural machinery suppliers and a wide variety of other businesses depend on farmers for their income. A growing number of farm bankruptcies and loan defaults have severely affected the health of some of the nation's agricultural banks—typically small, rural commercial banks where some 25 percent of loan portfolios are tied to farm debt. So far this year, 46 agricultural banks have failed, up from 25 in all of 1984.

However, agricultural banks are not the only ones caught by farmers' financial problems. The Farm Credit System, an amalgam of 37 banks in 12 districts and a number of local area associations, and the nation's largest single holder of farm debt, with $74 billion in its loan portfolio representing one-third of all farm debt, announced recently that it needed Washington's help to support its portfolio.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 10/16/85	$ Change Since	
		Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	178.894	+ .908	+21.573
Loans to Depository Inst.	.935	− .414	− 5.887
Float	.499	− .356	− .952
Total Reserve Bank Credit	193.726	+ .382	+15.844
Treasury Deposits with Federal Reserve Banks	2.945	+ .036	− .757
Currency in Circulation	189.805	+ 1.041	+12.561
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	125.104	− .674	+ 8.997
	10/9/85		
Member Bank Reserves:			
Total Reserves Held	43.746	+ .666	+ 5.670
Excess (Deficiency)	.673	+ .033	− .231
Net Borrowed Reserves	.095	+ .220	− .019
		% Change Since	
Monetary Aggregates†		**Three Months Ago***	**Year Ago**
M1 (10/7/85)	611.5	+ 10.1‡	+ 11.2‡
M2 (September '85)	2,528.4	+ 9.0	+ 9.5
M3 (September '85)	3,163.4	+ 7.8	+ 9.0
Domestic Nonfinancial Debt (2nd Q'85)	6,317.3	+ 12.2	+ 13.6

†Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 10/18/85	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.16%	7.28%	7.38%
* Federal Agencies	8.20	8.45	9.16
* Municipal Notes—High Grade (46% Taxable Equivalent)	8.33	8.61	9.26
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	7.90	7.97	8.25

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	7.85%	Nov.	7.78%
15- 29 days	7.85	Dec.	7.78
30- 59 days	7.85	Jan.	7.78
60- 89 days	7.80	Feb.	7.78
90-179 days	7.80	Mar.	7.78
180-239 days	7.80	Apr.	7.78
240-270 days	7.80		

‡Industrial Paper—Prime			
30- 89 days	7.83%	†Federal Funds	
90-120 days	7.80	Effective Rate	7.95%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'85n	$ 3,916	$ 3,853	$ 3,695
Gross National Product (1972 Dollars)*	3rd Q'85n	$ 1,685	$ 1,671	$ 1,645
Percent Change, Annual Rate	3rd Q'85n	3.3	1.9	1.6
Change in Consumer Prices*	Aug '85	2.4%	2.4%	4.8%
Change in Producer Prices*	Sep '85	− 7.2%	− 3.6%	0.0%
Civilian Employment (Thousands of Persons)†	Sep '85	107,544	107,172	105,394
Unemployment as % of Civilian Labor Force†	Sep '85	7.1%	7.0%	7.4%
Personal Income*	Sep '85n	$ 3,209	$ 3,199	$ 3,068
Leading Indicators Composite Index (1967=100)†	Aug '85	170.1	169.0	164.4
Industrial Production Index (1977=100) †	Sep '85n	124.7	124.8	123.3
Net Change in Consumer Installment Credit †	Aug '85	$ 6.31	$ 6.25	$ 6.02
U.S. Merchandise Trade Balance †	Aug '85	−$ 9.90	−$ 10.51	−$ 10.09
Plant and Equipment Expenditures*	4th Q'85	$387.40(a)	$389.54(a)	$368.29
Private Housing Starts (Thousands of Units)*	Sep '85n	1,583	1,746r	1,669
New Construction Expenditures*	Aug '85	$ 344.0	$ 340.2	$ 321.2
Total Business Inventories †	Aug '85n	$ 577.9	$ 580.1r	$ 561.7
Total Business Sales †	Aug '85n	$ 429.1	$ 422.5r	$ 413.3

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

The agriculture-related industries are also feeling the effects of farmers' financial stress. Farm equipment manufacturers, for example, reduced the number of production workers by more than half since the industry's employment peak in 1979. This is not surprising, since unit retail sales of major farm equipment items have declined precipitously since 1979. For example, sales of tractors with 40 or more horsepower declined nearly nine percent in the first eight months of this year compared with the same period in 1984. This decline came on the heels of a 55 percent plunge in unit sales of these types of tractors between 1979 and 1984.

The origins of today's problems can be traced to the 1970s and early 1980s. It was an unusually prosperous period for U.S. agriculture. Rising commodity prices in that period boosted farm income and provided both the incentive and the financial means for expansion. In addition, low or sometimes negative real interest rates made it advantageous to finance a large share of farm expansion with borrowed money. And finally, acting on expectations of rising inflation, farmers acquired additional land, bidding up its price in the process. By 1981, the average price of an acre of farmland in the United States had nearly quadrupled compared with 1970. Currently, however, the average price of an acre of farmland stands 19 percent below its 1981 peak value.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (10/2/85)	157,948	– 234	– 2,199
New York City (10/9/85)	33,621	+ 676	– 698
Commercial Paper (10/9/85)	282,092	+ 2,969	+51,420

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/2/85)	254,787	+ 1,492	+ 6,811
New York City (10/9/85)	59,702	– 900	– 5,395

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/2/85)	695,923	+ 8,465	+ 63,229
New York City (10/9/85)	153,576	– 922	+ 10,998

Financial Markets

	Friday 10/18/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.39%	– .06	– 2.64
180-Day Bills†	7.62	– .10	– 3.08
Longest Bills†	7.88	– .16	– 3.12
Recent Issues:			
9s 9/30/87	8.75	– .19	
$9\frac{5}{8}$s 6/30/89	9.37	– .26	
$10\frac{1}{2}$s 8/15/95	10.14	– .19	
$10\frac{5}{8}$s 8/15/15	10.42	– .18	
Municipals:			
Bond Buyer–20 Bond Index* (10/17/85)	9.12%	– .13	– 1.12
Blue List Total ($ Million)	$1,684	– $ 23	+ $ 105
30-Day Visible Supply ($ Million)	$4,941	+ $358	+ $ 809
Total	$6,625	+ $335	+ $ 914
Corporates:			
Moody's Aa Composite (10/17/85)	11.46%	– .05	– 1.69
30-Day Visible Supply ($ Million)	$1,882	– $553	+ $1,492
Stocks:			
Dow-Jones Averages:			
Industrials	1,368.84	+ 28.90	+ 142.91
Transportation	660.58	+ 13.11	+ 117.84
Utilities	154.44	+ .36	+ 9.64
65 Stocks	553.09	+ 9.98	+ 65.75
Standard and Poor's 500 Stocks	187.04	+ 2.76	+ 24.36
N.Y.S.E. Composite Index	108.85	+ 2.29	+ 11.99
N.Y.S.E. Avg. Daily Vol. for Week (000's)	110,768	+14,722	– 11,196

* 46% Taxable equivalent 16.89%.

† Bond equivalent.

International Rates

	Friday 10/18/85	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	7.88%	7.81%
1 month	7.94	7.94
3 month	8.06	8.13
6 month	8.19	8.25
1 year	8.50	8.63
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	10.00%	10.12%
Long Term (7 to 15 yrs.)	10.50	10.62

FOREIGN EXCHANGE SPOT RATES

New York Opening (10/18/85)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.01874	53.3500
Canada	.7322	1.3657
Denmark	.1048	9.5375
France	.1244	8.0393
Germany	.3783	2.6347
Italy	.0005618	1780.00
Japan	.004644	215.33
Mexico	.002497	400.50
Netherlands	.3364	2.9730
Switzerland	.4619	2.1648
U.K.	1.4250	.7018

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MONDAY, OCTOBER 28, 1985
VOLUME XXII, NUMBER 33

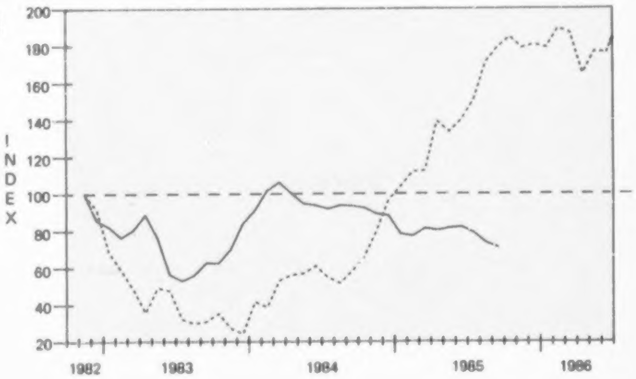
Inflation Is Kept In Check . . .

As the economic recovery rapidly approaches its third anniversary, it is encouraging to note that the rate of inflation is still relatively low. Usually at this point in a business expansion, the rate of inflation would be picking up. But during the current expansion, which is at least average in strength, the rate of rise in consumer prices has been decreasing for about a year and a half (see chart). During the 12 months ending in September, retail prices, as measured by the consumer price index (CPI), rose by only 3.2 percent—the smallest 12-month advance since late 1983 and one full percentage point below the increase of 4.2 percent during the previous 12 months.

This 3.2 percent rise is all the more interesting in view of the earlier strength in business activity, the continuing stream of Federal budget deficits and rapid money supply growth. And with the producer price index (PPI), which measures price changes at the wholesale level, up only 0.2 percent for the year ending this September—the smallest 12-month rise in over 20 years—the near-term outlook is for continued low inflation. One of the main contributors to the low inflation rate is falling commodities prices. The PPI for unprocessed or crude materials has fallen over ten percent in the year ending September, while prices of farm products dropped 13 percent over the same period. The other main factors are sagging energy prices, modest wage growth and increased productivity. As for the dollar, it remains strong, standing 54 percent above its mid-1980 low point on a trade-weighted basis in spite of the 20 percent drop in its value from its February peaks.

Consumer spending between the two broad categories of consumer purchases, goods (food, clothing, appliances, cars, etc.), and services (medical care, transportation, housing and energy services), is divided almost evenly—yet the inflation trends in these categories are strikingly different. The latest 12-month change in the prices of goods was only 1.8 percent, the smallest rise in almost 20 years. Just 1½ years earlier, the 12-month increase was 4.5 percent—more than double the current rate. In the services category, by contrast, prices have risen 4.7 percent over the past 12 months, and the 12-month price increase has been running in the five-to-six percent range for the past 18 months.

The main reason for this difference is lower-priced imports. The strong dollar and very low labor costs overseas have made quite a few imported goods cheaper than similar items produced domestically. This has forced domestic goods producers to hold down price increases in order to be more competitive. But, services are not generally imported and therefore, the providers of these services have not faced the same price competition.


12-MONTH PERCENT CHANGE IN CONSUMER PRICE INDEX
CURRENT RECOVERY (LINE), AVG. OF 4 COMPARABLE RECOVERIES (DOT)
(TROUGH=100)

. . . By Sagging Food And Energy Costs . . .

Food prices are probably of the greatest concern to most people since one-fifth of the average consumer's budget is devoted to purchases of food and beverages, making it the largest goods category by far. Consumers currently are enjoying the lowest rate of inflation for food items since late 1983. Food prices advanced only 1.8 percent in the 12 months ending in September, down from a four percent rise in the previous 12 months. One of the main reasons for the low rate of food price inflation is that the prices of such basic commodities as wheat and corn have dropped over 16 percent from their recent peak in February due to huge supplies both in the U.S. and elsewhere. This is not expected to change in the near future, boding well for con-

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tinued low inflation for food items. One source of price increases might come from meat prices, however, as tighter livestock supplies may well push up beef prices later this year.

The cost of energy items, which accounts for more than ten percent of the average consumer's budget, has gone up only 0.8 percent over the past 12 months. While this is a fraction of the 13½ percent increase for all of 1981, just a few months ago energy prices were showing declines on a year-over-year basis. Energy prices are being held down by an abundant supply of oil, whose price is expected to remain fairly stable at least through the winter months (Financial Digest—September 30, 1985). The impact of these two categories, food and energy, on the overall level of inflation can be seen by looking at a price index which excludes them. Without these two components, which account for almost one-third of the CPI, the 12-month increase of the CPI would be almost one percentage point higher—3.9 percent—instead of 3.2 percent.

Although for most people medical care represents only a small portion of their yearly outlays, as the population ages and the need for health care grows, medical costs will become of greater concern. It is therefore encouraging to note that the 12-month rise in health care costs dipped to 5.5 percent by February 1985—the smallest such gain in over 11 years. And although this rate of rise has since inched up to 6.5 percent, it is still only half the rate of rise

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 10/23/85	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	179.367	+ .473	+22.722
Loans to Depository Inst.	1.301	+ .366	− 4.344
Float	.847	+ .372	+ .168
Total Reserve Bank Credit	195.542	+ 1.840	+20.376
Treasury Deposits with Federal Reserve Banks	3.650	+ .705	+ .514
Currency in Circulation	189.420	− .379	+13.033
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	122.909	− 2.195	+ 3.851
	10/23/85		
Member Bank Reserves:			
Total Reserves Held	43.784	+ .005	+ 5.941
Excess (Deficiency)	.743	+ .075	+ .327
Net Free Reserves	.274	+ .374	+ .661
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M1 (10/14/85)	605.1	+ 10.9‡	+ 11.1‡
M2 (September '85)	2,528.2	+ 8.9	+ 9.5
M3 (September '85)	3,163.4	+ 7.8	+ 9.0
Domestic Nonfinancial Debt (2nd Q'85)	6,317.3	+ 12.2	+ 13.6

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 10/25/85	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.21%	7.39%	7.47%
* Federal Agencies	8.41	8.85	9.26
* Municipal Notes—High Grade (46% Taxable Equivalent)	8.80	9.26	9.95
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	7.93	8.02	8.15

‡Finance Company Paper—Prime	
5- 14 days	7.85%
15- 29 days	7.85
30- 59 days	7.85
60- 89 days	7.85
90-179 days	7.82
180-239 days	7.80
240-270 days	7.80

‡* Bankers' Acceptances	
Nov.	7.95%
Dec.	7.90
Jan.	7.90
Feb.	7.90
Mar.	7.90
Apr.	7.90

‡Industrial Paper—Prime	
30- 89 days	7.85%
90-120 days	7.80

†Federal Funds Effective Rate 7.85%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'85	$ 3,916	$ 3,853	$ 3,695
Gross National Product (1972 Dollars)*	3rd Q'85	$ 1,685	$ 1,671	$ 1,645
Percent Change, Annual Rate	3rd Q'85	3.3	1.9	1.6
Change in Consumer Prices*	Sep '85n	2.4%	2.4%	4.8%
Change in Producer Prices*	Sep '85	− 7.2%	− 3.6%	0.0%
Civilian Employment (Thousands of Persons) †	Sep '85	107,544	107,172	105,394
Unemployment as % of Civilian Labor Force†	Sep '85	7.1%	7.0%	7.4%
Personal Income*	Sep '85	$ 3,209	$ 3,199	$ 3,068
Leading Indicators Composite Index (1967=100)†	Aug '85	170.1	169.0	164.4
Industrial Production Index (1977=100) †	Sep '85	124.7	124.8	123.3
Net Change in Consumer Installment Credit †	Aug '85	$ 6.31	$ 6.25	$ 6.02
U.S. Merchandise Trade Balance †	Aug '85	−$ 9.90	−$ 10.51	−$ 10.09
Plant and Equipment Expenditures*	4th Q'85	$387.40(a)	$389.54(a)	$368.29
Private Housing Starts (Thousands of Units)*	Sep '85	1,583	1,746	1,669
New Construction Expenditures*	Aug '85	$ 344.0	$ 340.2	$ 321.2
Total Business Inventories †	Aug '85	$ 577.9	$ 580.1	$ 561.7
Total Business Sales †	Aug '85	$ 429.1	$ 422.5	$ 413.3

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

posted just 3½ years ago. The new regulations imposed two years earlier have changed both the cost and pricing structure of the health care industry, shifting the responsibility for cost control from the government to hospitals, and has already resulted in tighter cost control, even though this program will not be fully implemented until 1987.

. . . And Modest Wage Increases

The dramatic slowdown in U.S. wage gains has been crucial to keeping inflation in check, since labor costs represent two-thirds of business operating costs. In the third quarter of this year, the index of average hourly earnings for nonfarm production workers rose at an annual rate of only 1.2 percent compared with the second quarter—the lowest quarterly gain since the Commerce Department started keeping records on this index in 1964. The index is currently only 2.7 percent above last year's third quarter level. Just four years ago, the year-over-year comparisons reached ten percent.

A reignition of the wage-price spiral is not likely anytime soon as the forces behind the wage containment are still at work. Unemployment, though declining, is still high for a recovery. Workers are less worried about inflation than they were earlier in the business expansion. And because of continued fierce competition from imports and non-union rivals in deregulated industries, even thriving unionized companies are keeping a tight grip on labor costs.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (10/9/85)	158,691	+ 506	– 1,595
New York City (10/16/85)	33,420	– 258	– 993
Commercial Paper (10/16/85)	284,672	+ 2,374	+51,318

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/9/85)	252,892	– 1,499	+ 4,098
New York City (10/16/85)	59,947	+ 245	– 4,168

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/9/85)	692,815	– 2,975	+ 73,351
New York City (10/16/85)	152,323	– 1,247	+ 12,314

Financial Markets

	Friday 10/25/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.23%	– .16	– 2.36
180-Day Bills†	7.41	– .21	– 2.62
Longest Bills†	7.49	– .39	– 2.92
Recent Issues:			
10s 10/31/87 (When Issued)	8.86	NA	
9$^{5}/_{8}$s 6/30/89	9.43	+ .06	
10$^{1}/_{2}$s 8/15/95	10.19	+ .05	
10$^{5}/_{8}$s 8/15/15	10.47	+ .05	
Municipals:			
Bond Buyer–20 Bond Index* (10/24/85)	8.95%	– .17	– 1.10
Blue List Total ($ Million)	$1,706	+ $ 22	+ $ 163
30-Day Visible Supply ($ Million)	$4,361	– $580	+ $1,841
Total	$6,067	– $558	+ $2,004
Corporates:			
Moody's Aa Composite (10/24/85)	11.40%	– .06	– 1.53
30-Day Visible Supply ($ Million)	$1,845	– $ 37	+ $ 565
Stocks:			
Dow-Jones Averages:			
Industrials	1,356.52	– 12.32	+ 151.57
Transportation	649.58	– 11.00	+ 126.60
Utilities	159.16	+ 4.72	+ 17.59
65 Stocks	550.13	– 2.96	+ 74.01
Standard and Poor's 500 Stocks	187.52	+ .48	+ 22.23
N.Y.S.E. Composite Index	108.36	– .49	+ 13.02
N.Y.S.E. Avg. Daily Vol. for Week (000's)	110,812	+ 44	+ 22,426

* 46% Taxable equivalent 16.57%.

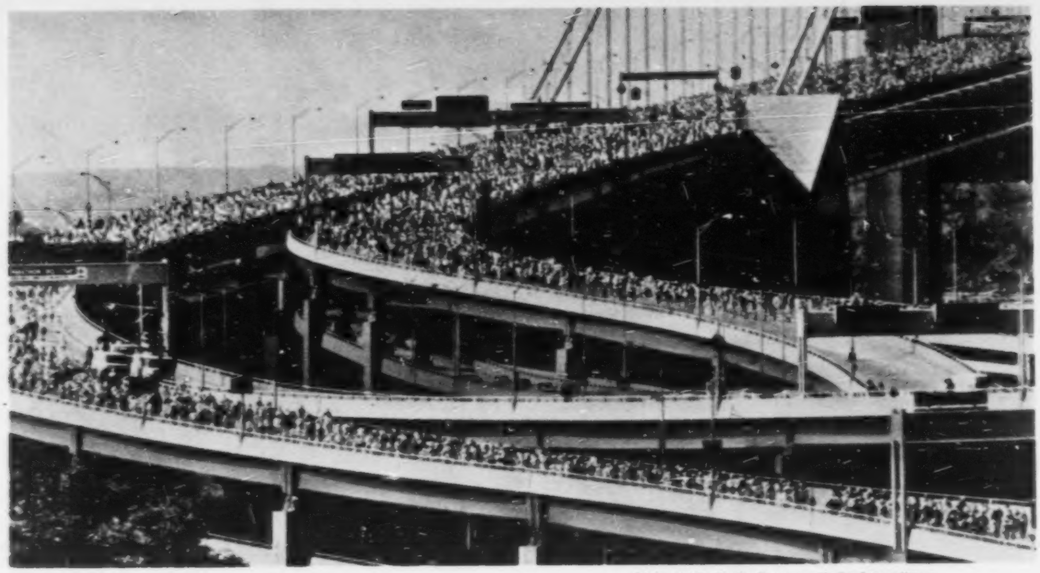
† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 10/25/85	Week Ago
Overnight	7.81%	7.88%
1 month	8.06	7.94
3 month	8.13	8.06
6 month	8.25	8.19
1 year	8.56	8.50
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	10.00%	10.00%
Long Term (7 to 15 yrs.)	10.50	10.50

FOREIGN EXCHANGE SPOT RATES

New York Opening (10/25/85)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.01865	53.6200
Canada	.7320	1.3662
Denmark	.1045	9.5650
France	.1238	8.0765
Germany	.3777	2.6477
Italy	.0005594	1787.50
Japan	.004609	216.98
Mexico	.002421	413.00
Netherlands	.3348	2.9866
Switzerland	.4604	2.1718
U.K.	1.4305	.6991



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